

BY THE COMPTROLLER GENERAL

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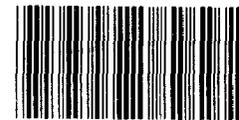
Report To The Congress

OF THE UNITED STATES

Legislative And Administrative Changes To Improve Verification Of Welfare Recipients' Income And Assets Could Save Hundreds Of Millions

Underreporting of income and assets by recipients of benefits from needs-based programs--whether deliberate or otherwise--results in hundreds of millions of dollars in improper payments each year. Current verification requirements and practices are not adequate to prevent such payments. Verification requirements vary widely, but generally are extremely vague or overly restrictive. Furthermore, some Federal laws and regulations preclude the use of information which, if available, would significantly enhance the verification process.

GAO recommends that the Congress eliminate the present restrictions on the use of certain data for verifying eligibility and determining benefit amounts in needs-based programs.



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WASHINGTON D.C. 20548

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To the President of the Senate and the
Speaker of the House of Representatives

This report discusses legislative and administrative changes needed to improve agencies' ability to verify income and asset information reported by applicants and recipients of welfare programs. Specifically, this report discusses the differences in verification requirements among programs, the inadequacies of current verification processes, and Federal laws and regulations which restrict the use of information that could significantly improve the verification process. Because of the substantial tax-dollar loss attributable to overpayments in federally funded welfare programs, we are recommending legislative changes to make various data available for verifying eligibility and determining benefit amounts in these programs.

The report was requested by the Chairman, Subcommittee on Intergovernmental Relations and Human Resources, House Committee on Government Operations. Because of the legislative changes being recommended and the large number of programs affected, with the Chairman's concurrence, we are issuing the report to the Congress.

We are sending copies of this report to the Secretaries of Agriculture, Health and Human Services, Housing and Urban Development, and Labor; the Commissioner of Internal Revenue; and the Directors of the Office of Management and Budget and the Office of Personnel Management.

A handwritten signature in cursive script, reading "Charles A. Bowsher".

Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

LEGISLATIVE AND ADMINISTRATIVE
CHANGES TO IMPROVE VERIFICATION OF
WELFARE RECIPIENTS' INCOME AND ASSETS
COULD SAVE HUNDREDS OF MILLIONS

D I G E S T

GAO identified 58 federally supported programs which provide benefits to needy individuals and families. These programs cost about \$81 billion in fiscal year 1978, the latest information readily available when we compiled the data. Need is primarily determined based on the amount of an individual's or family's income and assets. When applicants or recipients do not report or underreport their income and assets and the impropriety is not detected, an overpayment occurs.

Because of concern over improper expenditures in these needs-based programs, the Chairman, Subcommittee on Intergovernmental Relations and Human Resources, House Committee on Government Operations, asked GAO to review the manner in which income and asset information is used and verified by agencies administering the programs.

GAO based its review on 6 of the 58 programs which cost about \$48 billion in fiscal year 1978: Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), Medicaid, and Title XX Social Services, all under the jurisdiction of the Department of Health and Human Services (HHS); Food Stamp under the Department of Agriculture (Agriculture); and Section 8 Housing under the Department of Housing and Urban Development (HUD). The Office of Management and Budget (OMB) has oversight responsibility for the agencies' operation of these programs. In October 1980, a Presidential task force directed by OMB reported on possible eligibility simplification and improved verification in the six programs GAO reviewed.

EXTENT OF OVERPAYMENTS

The exact amount of overpayments caused by recipients not properly reporting income and assets is unknown. However, fiscal year 1978-79 estimates for five of the six major programs place the amount of such overpayments at \$867 million annually--\$639 million Federal and \$228 million State funds. (See p. 1.)

The Department of Labor does not have the legislative authority to require the 12 States to collect data on each employee. Another limitation on the State wage data is that they do not include Federal employees, the military, and the self-employed. (See p. 16.)

One Federal source of automated wage data on Federal and non-Federal employees, the military, and the self-employed is the Social Security Administration (SSA). Beginning in October 1979, SSA was required to furnish wage data to the States for the AFDC program, but was unable to provide comprehensive 1979 data until July 1981. The usefulness of these data is diminished because of its age by the time SSA has it available for use, and because the Tax Reform Act of 1976 precludes use of the data in State-administered programs other than AFDC and Food Stamp. (See p. 17.)

The other Federal source of automated wage data is the Office of Personnel Management (OPM), which maintains data on the salaries of Federal civilian employees. Although these data could be used by Federal and State agencies under present legislation, they are being used in only one program GAO reviewed--SSI, which is administered by SSA. (See p. 18.)

USE OF THE INTERNAL REVENUE SERVICE DATA

Financial data, such as interest and dividend income, in the Internal Revenue Service's (IRS') Information Return Processing File would be useful in verifying income and assets in welfare programs. Because of the concerns about individual privacy, however, exchange of these data is prevented by the Tax Reform Act of 1976. (See pp. 18 to 20.)

USE OF SSA BENEFIT DATA

SSA data on Social Security and SSI recipients are available to State and local entities administering needs-based programs. The use of these data, however, varies considerably among the States and among the individual programs within States. While SSA benefit data are also available for use in the Section 8 Housing program, local managers of the program have no automated system for obtaining this information. (See p. 20.)

RECOMMENDATIONS TO AGENCY OFFICIALS

If the Congress provides for the release of data as recommended above, GAO recommends that the Director, OMB:

- Identify which of the 58 federally funded needs-based programs should use SSA wage, self-employment earnings, retirement income, and benefit data; OPM wage data; State wage data; and IRS information return data.
- Direct that all Federal departments and/or agencies responsible for the needs-based programs issue regulations to require the use of these data with appropriate safeguards and that they establish mechanisms to monitor the use of the data.

If the Congress does not provide for release of the data as recommended, then OMB should carry out these recommendations for the data that are already available.

GAO is also recommending to the Secretaries of Agriculture, HHS, and HUD that, for their programs GAO reviewed, they acquire and use currently available data to verify applicants' and recipients' income and assets. (See p. 28.)

GAO believes that implementing its recommendations would avoid a substantial part of the estimated \$1 billion fiscal year 1982 welfare overpayments caused by recipients not properly reporting their income and assets. (See pp. 1 and 28.)

AGENCY COMMENTS

GAO requested comments on a draft of this report from Agriculture, HHS, HUD, Labor, IRS, OMB, and OPM. Comments from all the agencies except HUD and OMB are included in appendix IV. Comments from these two agencies were not received in the allotted time to be reproduced in the report.

The agencies concurred in general with GAO's recommendations, but some expressed reservations and/or made suggestions about additional data sources that could be used for verification purposes and other programs that could benefit from data exchange. GAO's evaluation of the agencies' comments appears in chapter 4.

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CHAPTER 1

INTRODUCTION

About 58 federally supported programs provide cash and noncash aid that is targeted primarily to persons with limited income. Collectively these programs constitute the "welfare system," if welfare is defined as needs-based benefits. The total fiscal year 1978 expenditure for these 58 programs was about \$81 billion--\$64 billion by the Federal Government and \$17 billion by the States. In fiscal year 1968 the total expenditure for cash and noncash welfare programs was about \$16 billion. Thus, even after allowances are made for inflation, welfare expenditures almost tripled from 1968 to 1978.

Income and asset information reported by applicants and recipients are key factors in determining eligibility for most of the welfare programs. Federal and State agencies responsible for administering the programs and other organizations, including GAO, have developed estimates showing that some of the programs have made significant erroneous payments because recipients' income and assets either were not reported or were incorrectly reported.

The total amount of improper payments in the 58 welfare programs related to recipients' income and assets is not known. However, fiscal year 1978-79 estimates for five of the six programs we reviewed place the overpayments due to recipients not properly reporting their income and assets at about \$867 million in Federal and State funds annually. Without corrective action, the Federal expenditures alone, because of the overpayments in these five programs, will probably exceed \$1 billion in fiscal year 1982. (See p. 28.) In addition, an unknown amount of other program benefits are improperly provided to cash grant recipients who would not be eligible for such benefits if their income and assets were properly disclosed.

OBJECTIVE

This report discusses what Federal and State agencies are doing to verify the accuracy of income and asset information reported by applicants and recipients in 6 of the 58 welfare programs. It also discusses legislative and administrative changes that are needed to improve the verification processes.

The report is in response to a request from the Chairman, Subcommittee on Intergovernmental Relations and Human Resources of the House Committee on Government Operations, for information about the accuracy of income and asset information used to determine eligibility, or the amount of benefits people are to receive from Federal programs. The Chairman asked us to determine

<u>Program</u>	Federal-State expenditures (<u>note a</u>) (billions)	Assistance units (millions)	<u>Department</u>
Aid to Families with Dependent Children (AFDC)	\$12.1	10.3 persons	HHS
Supplemental Security Income (SSI)	6.8	4.2 persons	HHS
Medicaid	21.8	22.9 persons	HHS
Social Services (Title XX of the Social Security Act)	3.7	8.4 persons	HHS
Food Stamp	6.9	17.7 persons	Agriculture
Section 8 Housing	<u>1.4</u>	0.9 housing units	HUD
Total	<u>\$52.7</u>	(note b)	

a/Includes administrative costs.

b/Estimate.

We selected these programs for several reasons. First, they are all relatively large, both in terms of dollar amounts and the number of people served. The total expenditures and number of people served in fiscal year 1979 ranged from \$1.4 billion to provide Section 8 Housing for about 900,000 families to \$21.8 billion to provide Medicaid for about 23 million persons. Secondly, the programs provide a wide range of benefits--cash, medical services, social services, food, and housing. Finally, the programs we selected were those studied for possible eligibility simplification by a Presidential task force under the direction of the Office of Management and Budget (OMB), which has oversight responsibilities for Federal programs. The task force report, which was issued in October 1980, contained recommendations relating to the treatment and verification of income and asset information which we considered in preparing this report.

benefit programs not covered by this review, may provide benefits to people receiving AFDC or SSI without the administering agency independently determining eligibility. Therefore, when a recipient is found to be ineligible for the basic program (AFDC or SSI) because of unreported or underreported income and assets, the total amount of improper expenditures from all federally funded programs could be much greater than the amount indicated by the agencies' quality control systems.

Another example of a program providing automatic eligibility to cash grant recipients is the Low-Income Energy Assistance program. Although the eligibility criteria for benefits under this program have been modified each year, the principal recipients have been those receiving cash payments from other programs. In fiscal year 1980, for example, \$400 million in low-income energy assistance payments were directly distributed to SSI recipients. An additional \$796 million was distributed to the States in the form of block grants. Most States redistributed their share of the block grant to AFDC households.

Additionally, several work training programs, such as the Work Incentive and Job Corps programs, give automatic eligibility or priority to recipients of cash assistance programs.

In past reviews of the six programs covered in this review, we have reported that nonreporting or incorrect reporting of income and assets are major causes of improper payments and that increased verification is needed. Appendix III lists our past reports that have included information about these problems and, in some cases, estimates of the resulting improper payments.

DEFINITION OF VERIFICATION

For the purpose of our review, we defined "verification" as the systematic approaches used by the entities that administer programs to determine the accuracy of data, including income and assets, from all applicants or recipients for initial eligibility determinations or at scheduled redeterminations. For example, State welfare agencies' systematic use of wage data obtained from employment security agencies to verify earnings information provided by applicants and recipients would meet our definition. Conversely, our definition does not include quality control reviews done on a sampling basis, or special one-time reviews, such as the Department of Health and Human Services' (HHS') "Project Match," 1/ done for entire caseloads. We considered such efforts

1/Project Match involved primarily matching Federal employee rolls with State AFDC rolls and the Social Security Administration's (SSA's) SSI rolls.

We interviewed many Federal, State, and local government officials involved in administering the selected programs to obtain their views on the eligibility determination and verification processes. We also made inquiries of governmental and nongovernmental entities not involved in administering the programs we reviewed in an attempt to identify other verification techniques.

We reviewed verification systems for four of the six selected welfare programs (AFDC, Food Stamp, Medicaid, and Social Services) in each of the five States. Because the other two programs (SSI and Section 8 Housing) require uniform procedures nationwide, we limited our review to the governmental and nongovernmental entities involved in administering these programs in California. The systems we studied all relate to verification of income. We did not identify any automated systems presently being used to verify ownership of assets.

We did not review case files and related records to quantify the amount of erroneous payments resulting from inadequate verification. Instead, we used the results of the agencies' quality control reviews, special agency studies, and our past reviews to demonstrate that erroneous payments result from nonreported or incorrectly reported data.

It should be noted that the income and asset data sources and the possible uses of the data for verification in Federal programs discussed in this report are not all inclusive. We concentrated our review on the data sources and uses that we believe have the greatest potential for reducing erroneous payments.

We recognize that additional costs would be incurred in verifying income and assets with information from sources other than welfare applicants and recipients. Only limited data were available, however, on estimates of these costs for comparison to the potential savings of using the information discussed in this report. We believe, however, that the benefits would significantly outweigh the costs. Additional cost and benefit information is provided in chapter 3.

We provided a draft of this report to Agriculture, HHS, HUD, Labor, the Internal Revenue Service (IRS), OMB, and the Office of Personnel Management (OPM). Our evaluation of the agencies' comments is presented in chapter 4. Comments from all agencies except HUD and OMB are included in appendix IV. Comments from these two agencies were not received in the allotted time to be reproduced in the report.

the monthly Federal SSI payment and may administer the supplemental payments themselves or contract with SSA for Federal administration. To be eligible for SSI, an applicant must be aged, blind, or disabled and must meet income and resource limits set by Federal law and regulations.

The Social Security Act requires that SSI eligibility be established on the basis of a verified application. The act requires SSA to use independent or collateral sources to verify income and assets in establishing eligibility and benefit levels. However, the law does not identify any specific data sources to be used for verification purposes. SSA requires its field offices to manually verify income and asset information supplied by applicants using documentary evidence furnished by either the applicant or a third party.

OVERVIEW OF PROGRAMS ADMINISTERED BY STATE AND LOCAL WELFARE AGENCIES

At the Federal level, the programs we reviewed are funded through several Federal agencies and have various verification requirements. At the State level, however, the programs are often administered by a single State agency. As a result, some States have developed integrated management systems which can increase the effectiveness of the verification process.

For example, Louisiana, New Hampshire, and Texas have systems which provide an eligibility worker direct access to a statewide master file on public assistance recipients. The eligibility worker can determine whether an applicant has received benefits in the past or is currently receiving benefits under any of the State-administered programs. California has a legislative mandate to develop such a system by July 1984. Massachusetts has a statewide index of public assistance recipients, but an eligibility worker in the local welfare office cannot directly access the file.

Four of the States we visited (Louisiana, Massachusetts, New Hampshire, and Texas) have State-administered public assistance programs. The fifth (California) has a State-supervised, county-administered system. 1/

In those States which administer the assistance programs themselves, the State government is directly involved in all aspects of the programs, from establishing policies and procedures to distributing benefits and providing for services. The State governments must develop policies and procedures for the programs,

1/Thirty-two States, the District of Columbia, Guam, Puerto Rico, and the Virgin Islands have State-administered programs. The other 18 States have State-supervised programs.

Until recently, the Federal laws and regulations merely required that States consider income and resources when determining eligibility and the amount of assistance payments for an AFDC applicant. However, on December 20, 1977, the Congress enacted Public Law 95-216, which required that beginning in October 1979 local welfare offices use wage data obtained from either State employment security agencies or SSA in determining applicant eligibility.

Food Stamp

The Food Stamp program is the most regulated of the State-administered programs, probably because it is funded almost entirely by the Federal Government. Federal regulations establish eligibility limits on the income and financial resources of recipients. The limits are uniform nationally as are the deductions and exemptions used to determine net income.

The Food Stamp program has the most explicit requirements on when income and assets should be verified and on what constitutes acceptable verification. Federal regulations specify that gross income reported by the applicant must be verified and that verification must be primarily by documentary evidence.

In an action similar to that taken in 1977 for the AFDC program, in 1980 the Congress passed Public Law 96-249, making wage data maintained by SSA or State employment security agencies available for use in the Food Stamp program. However, use of the data is optional, and while SSA's data may be released if requested beginning in May 1980, the State wage data do not have to be released until January 1983. 1/

Food Stamp program regulations also cover the verification of items deducted from reported income. Utility costs that exceed a specified limit must be verified, but other items may not be verified unless they appear "questionable." The same restriction applies to all assets except liquid assets and loans. Federal regulations define what is considered "questionable" and require that the case file contain documentation showing why information was questioned when attempts are made to verify it.

The regulations also provide that if a household has no income or is destitute, it is entitled to ask for expedited processing of its application for food stamps. The authorization to

1/In June 1981, the Senate passed S. 1007 which would require States to obtain and use State or SSA wage data for verifying Food Stamp eligibility and benefits beginning in January 1982. As of December 2, 1981, S. 1007 and H.R. 3603, which includes a similar provision, were being considered by a House-Senate Conference Committee.

The Title XX program gives States the option of either verifying income information through documentation or merely accepting applicants' statements on their income (referred to as the declaration method). Assets are not considered when eligibility is established for services.

OVERVIEW OF THE SECTION 8 HOUSING PROGRAM
ADMINISTERED BY NON-FEDERAL THIRD PARTIES

The Section 8 Housing program was created by the Housing and Community Development Act of 1974 and is funded entirely by the Federal Government. The program provides rent subsidies to low-income individuals and families to help them afford decent housing. The rental assistance is provided to eligible individuals and families by non-Federal third parties (public housing authorities or private owners) who contract with HUD. Eligibility for assistance is generally limited to individuals and families whose income does not exceed 80 percent of the median income for their particular area of residence.

HUD policy specifies that the housing manager, whether a public housing authority or private contractor, is responsible for determining applicant eligibility. HUD has developed guidelines which require the housing managers to use certain methods of verification and to thoroughly document the processes used. In HUD's order of preference, the acceptable methods are

- third-party verification, oral or written;
- review of documents; and
- notorized statements or signed affidavits.

HUD oversees the local administration of the program through its area offices. HUD does not perform any portion of the eligibility determination itself, but on a test basis periodically reviews the project managers' documentation establishing eligibility. HUD's reviews are essentially compliance reviews to determine whether project managers are fulfilling the requirements of their contracts.

verification purposes in administering Federal and State needs-based programs. The data are being used extensively by many of the 38 States, but are being used only to a limited extent by SSA in administering SSI and by HUD in its annual management reviews of the Section 8 Housing program.

Many State welfare agencies have been using wage data from their employment security agencies for several years. California, for example, has made its wage data available to the county welfare departments since 1971. Also, California, Louisiana, and Texas use State wage data in their Medicaid and Food Stamp programs. This use, however, may conflict with current Federal legislation.

Public Laws 95-216 and 96-249, which the Congress enacted to make SSA wage data available for AFDC and Food Stamp administration, respectively, include provisions covering the availability and use of wage data maintained by State employment security agencies. In both laws, the Congress required the same disclosure restrictions for the State wage data that it required for SSA's data, which are considered Federal tax return data. The effect is to limit the current use of State wage data to the program for which it is received. If the State welfare agency receives State wage data for AFDC under Public Law 95-216, it can use the data only for AFDC purposes. Likewise, Public Law 96-249 requires that, beginning in 1983, State employment security agencies make wage information available to State Food Stamp agencies upon request, so long as the wage information is used only for the Food Stamp program. 1/

In other words, it appears that, as a result of Public Laws 95-216 and 96-249, neither the State AFDC agency nor the State Food Stamp agency can use the State wage information for any other purpose. States' compliance with these laws would restrict their ability to verify eligibility for other State-administered programs.

With the passage of Public Laws 95-216 and 96-249, the Congress has recognized the usefulness of State wage data for the administration of the AFDC and Food Stamp programs. However, in making use of the data mandatory for the AFDC program and optional for the Food Stamp program, the Congress has not provided for the consistent use of such data. In addition, the Congress has not required that State wage data be used in other federally funded State-administered programs nor that it be made available and used in federally administered programs, such as the SSI program.

The Federal Unemployment Tax Act does not preclude the State employment security agencies from providing State wage data to

1/See note, p. 11.

based program administrators was that recognition be given to the costs of providing the data. The officials said that Labor has not developed an estimate of the cost of providing State wage data for verification purposes.

SSA wage data

One of the Federal automated sources of wage data is SSA. The wage data reported to SSA are comprehensive in that they include data on Federal and non-Federal employees, the military, and the self-employed. However, some basic problems limit the usefulness of these data.

One problem is that the data are now reported by employers annually rather than quarterly, as they were in the past. This change to annual reporting has severely limited the usefulness of SSA's wage data for verification purposes, in that earnings information may be well over a year old before it is available to verify a recipient's income. For example, the most current wage data presently available from SSA are for calendar year 1979.

Another problem is that, because these data are collected for Federal income tax purposes as well as for SSA's use, access to the data in IRS' view is basically controlled by the Tax Reform Act of 1976. This law was enacted to provide stringent disclosure limitations on tax return data because of concerns about individual privacy. Under this law, IRS considers the wage information collected by SSA to be tax return data and thus subject to safeguards against improper disclosure. However, the Congress has passed separate legislation making SSA's wage data available for use in the AFDC and Food Stamp programs.

The AFDC program legislation (Pub. L. No. 95-216) requires that welfare agencies obtain and use SSA wage data unless they obtain wage data from their State employment security agency. The Food Stamp program legislation (Pub. L. No. 96-249) merely allows SSA to make wage data available to State welfare agencies if they request such data. The law does not require that the welfare agencies obtain and use the data. ^{1/} Both laws restrict the use of SSA wage data to the programs for which the data were provided--the AFDC or Food Stamp programs--rather than allowing the data to be used in other Federal programs administered by the State welfare agencies. Other programs could also benefit from the use of these data.

A third problem until recently was that SSA wage data were not yet available to the States. SSA was required under Public Law 95-216 to make data available to the States for use in the

^{1/}See note, p. 11.

are the greatest barrier to increasing the effectiveness of the verification process. The Congress has taken initial steps to reduce this barrier by making SSA wage data (which IRS considers tax return data) available for use in the AFDC and Food Stamp programs. However, financial data available within IRS, which could be used for verification purposes, are still precluded from such use. The Tax Reform Act, for example, prohibits SSA from obtaining direct access to data which would identify undisclosed bank accounts and other income of SSI recipients.

One possible means of identifying assets is IRS records on taxpayer unearned income. IRS requires that data on taxpayer unearned income be reported through third-party information returns so that it can verify the accuracy of taxpayers' Federal tax returns. Third-party returns are submitted for pensions and annuities, interest income, dividends, lump-sum distributions from profit-sharing and retirement plans, bearer certificates of deposit, and individual retirement accounts. This information is maintained in IRS' information return processing (IRP) file. ^{1/} Third-party information returns would not only verify the unearned income being reported but also indicate ownership and value of assets which produced the income.

A 1978 feasibility test done by SSA and IRS demonstrated the usefulness of IRP data for identifying SSI recipients who receive interest income. In this test, the two agencies matched the social security numbers (SSNs) of 5,000 SSI recipients who claimed to have no income from bank accounts with data in IRS files. The results showed that 13.5 percent of the recipients had bank account income. Further, based on the amount of income, SSA estimated that 2.5 percent of the recipients owned more assets than allowed for SSI. According to SSA projections, more than 100,000 recipients were potentially overpaid \$122 million annually because of these undetected assets. SSA concluded that matching the SSNs of all SSI recipients with IRS records and using the results to redetermine recipients' eligibility appeared highly feasible and cost effective. SSA estimated that it would cost about \$2.7 million to reimburse IRS for matching the records and for SSA to redetermine the recipients' eligibility.

In a recent report, we recommended that, in the absence of any legislative change, SSA should obtain signed consent forms from SSI applicants authorizing SSA to obtain tax return data for

^{1/}The IRP file does have a limitation. According to IRS, all data filed on magnetic tape are posted to the file, but only some of the returns filed on paper are posted.

While SSA benefit data are also available for use in the Section 8 Housing program, local program managers have no automated system for obtaining this information. They must verify the data on a case-by-case basis through local SSA district offices. Lacking a uniform policy on disclosing SSA data to Section 8 managers, each SSA district office may respond to verification requests differently. One SSA district office manager, for example, has taken the position that his office will no longer process requests from Section 8 managers for verification of social security or SSI benefits because of the adverse impact of such requests on the district office workload.

This district office manager believes that Section 8 Housing managers can use other means, such as award letters or checks, to verify the benefits. This approach, however, puts the housing manager in a position of not being able to identify the benefits if the tenant denies receiving them.

Inconsistent use being made of SSA benefit data

One source of data available to the States, SSA's Beneficiary Data Exchange (BENDEX) file, provides information on recipients of Social Security Retirement, Survivors, and Disability Insurance (RSDI) benefits. SSA provides BENDEX data only on public assistance recipients for whom the States request information. Louisiana and Texas, for example, obtain BENDEX data on all AFDC, Medicaid, and Food Stamp recipients, but California obtains data only for certain Medicaid recipients. 1/

The ways in which the States use BENDEX data also vary. In Louisiana, Massachusetts, New Hampshire, and Texas, the data are used to verify RSDI benefit information reported by welfare recipients. California, on the other hand, does not obtain or use the data for such purposes. Instead eligibility workers must manually verify RSDI benefits by sending a specific request to the local SSA district office.

Another source of data SSA makes available to States is its State Data Exchange (SDX) file, which includes data on recipients of SSI benefits. The SDX data base also provides information on some other Federal pensions and benefits.

Although all the States we visited receive SDX data, they use the data in different ways. Texas, which makes the most comprehensive use of SDX information, uses it to automatically update the State's information on welfare recipients. Thus, benefit and other

1/California obtains BENDEX data on Medicaid recipients who are also eligible for Medicare.

supplied Federal income tax returns. Copies of tax returns sometimes may be used as documentation to support recipients' declarations or by quality control analysts in performing their reviews; however, there is no consistent use of such data in any of the programs we reviewed. Although we are not advocating the use of nonautomated verification systems as a general practice, we believe that the use of Federal income tax returns as a verification technique could be very beneficial for nongovernmental administering agencies, such as Section 8 Housing managers.

To our knowledge, only selected colleges and universities administering Federal student financial aid programs require applicants to provide Federal income tax returns for verification purposes. In a 1979 report, ^{1/} we noted that two of the schools visited had used Federal income tax returns to verify students' statements concerning their, or their family's, financial needs. At one school, the aid director estimated that this verification technique resulted in additional family contributions of \$1.3 million each year. As a result, the school established a requirement that all aid applicants submit Federal income tax returns. A study at the other school showed that if data from Federal tax returns had been used, more than half the family contributions would have been higher than they were based on other applicant-supplied data.

Because of the varying composition of recipients under the programs reviewed, particularly the number of recipients who may not file tax returns, the effectiveness of requiring copies of Federal income tax returns in any given program is not easily ascertainable. However, for programs with nongovernmental administrators, such as Section 8 Housing managers, who do not have access to the automated data bases described earlier in this chapter, copies of Federal income tax returns could provide a valuable means of verifying income and assets for program eligibility.

CONCLUSIONS

The total amount of overpayments in all 58 federally funded needs-based programs caused by recipients not properly reporting their income and assets is unknown. There are, however, substantial Federal and State expenditures attributable to such overpayments in the programs we reviewed. Estimates for five of the six programs we reviewed total \$867 million annually. Without corrective legislative and administrative action, the Federal expenditures alone will probably exceed \$1 billion in fiscal year 1982.

Part of the problem stems from the difficulty program administrators have in verifying the income and assets of applicants and

^{1/}"Inconsistencies in Awarding Financial Aid to Students Under Four Federal Programs" (HRD-79-16, May 11, 1979).

automated income and asset information discussed in this report. We believe, however, that the savings that would probably occur in reduced improper payments (estimated to be about \$1 billion in fiscal year 1982 in five of the six programs we reviewed) would greatly exceed the related implementation costs. The Congress, some Federal agencies, and some States apparently hold the same view:

- The Congress has enacted laws to require the use of State and SSA wage data in the AFDC and Food Stamp programs.
- Some States were using State wage data in administering Federal needs-based programs before the Congress enacted the requirements for AFDC and Food Stamp (California since 1971).
- In 1979 OPM's data on Federal employees were used in a special HHS project which reportedly paid for itself several times over by identifying AFDC, Medicaid, and Food Stamp overpayments.
- SSA concluded, based on a test, that matching SSI recipients' SSNs to IRS IRP data is highly feasible and cost effective.

RECOMMENDATIONS TO THE CONGRESS

We recommend that the Congress:

- I. Amend the Federal Unemployment Tax Act to require that all States collect individual wage information on a quarterly basis for use in their unemployment insurance programs and in federally funded needs-based programs.

We suggest that section 3304(a) of title 26 U.S.C. be amended by striking out subsection (16)(A) and (B) and inserting in lieu thereof:

"(16) (A) wage information contained in the records of the agency administering the State law is collected by that agency on individual employees on a quarterly basis,

(B) wage information maintained by the agency administering the State law is available to Federal, State, or local agencies for their use in establishing eligibility and correct benefit amounts for federally funded needs-based programs, and

(C) provided such safeguards are established as are necessary (as determined by the Secretary

We suggest that 26 U.S.C. 6103 (1) be amended by adding at the end thereof the following subparagraph:

"(9) Return Information from Internal Revenue Service

(A) The Secretary shall, upon written request, disclose data on unearned income from the IRS Information Return Processing file to the appropriate Federal, State and local agencies administering federally funded needs-based programs.

Restriction on Disclosure

(B) The Secretary shall disclose return information under subparagraph (A) only for purposes of, and to the extent necessary in, determining an individual's eligibility for benefits, or the amount of benefits, under federally funded needs-based programs identified under subparagraph (A)."

IV. Require that SSNs be obtained for applicants and recipients of any federally funded needs-based program. Following is suggested language to accomplish this.

--Departments and agencies shall require each individual applying for or receiving benefits under any federally funded needs-based program to furnish his or her social security number as a condition of initial or continuing eligibility.

RECOMMENDATIONS TO THE DIRECTOR, OMB

If the Congress provides for the release of data as we have recommended, we recommend that the Director:

--Identify which of the 58 federally funded needs-based programs should use SSA wage, self-employment earnings, retirement income, and benefit data; OPM wage data; State wage data; and IRS information return data.

--Direct that all Federal departments and/or agencies responsible for the needs-based programs issue regulations to require the use of the data with appropriate safeguards and that they establish mechanisms to monitor the use of the data.

If the Congress does not provide for release of the data as recommended, then OMB should carry out these recommendations for the data that are already available.

Department, Agency Program	1978-79 time period			Fiscal year 1982		Budget information			
	Estimated annual Federal expendi- tures for over- payments	Total Federal benefit payments (actual fiscal year 1979)	Overpay- ments as a percent of total benefit payments	Estimated total Federal benefit payments	Estimated Federal expendi- tures for over- payments	Appro- priation account	Func- tion /sub- func- tion	Authorizing committee	
	(millions)	(millions)	(percent)	(millions)	(millions)		(House)	(Senate)	
HHS, SSA, AFDC	\$115	\$ 5,819	2.0	\$ 7,021	\$ 140	09-60-0412	609	Ways and Means	Finance
HHS, SSA, SSI	155	4,970	3.1	7,119	221	09-60-0406	609	Ways and Means	Finance
HHS, HCFA, Medi- caid	116	11,560	1.0	17,437	174	09-38-0512	551	Energy and Commerce and Ways and Means	Finance
Agriculture, FNS, Food Stamp	211	6,460	3.3	12,241	404	05-84-3505	605	Agriculture	Agriculture
HUD, Section 8 Housing	<u>42</u>	<u>1,371</u>	3.1	<u>4,119</u>	<u>128</u>	25-02-0319	604	Banking Finance and Urban Affairs	Banking Housing and Urban Affairs
Total	<u>\$639</u>	<u>\$30,180</u>	2.1	<u>\$47,937</u>	<u>\$1,067</u>				

Use of wage data

Agriculture said it supports the use of SSA wage data even though in some circumstances they may be over a year old. The Department said that it believes that recipients' knowledge of eligibility workers' access to such data aids in obtaining accurate current income information.

Agriculture agreed that State wage data are generally the best for verification purposes and pointed out that there is pending legislation that would require the use of these data where available in administering the Food Stamp program. 1/

The Department pointed out that in those States that do not presently collect quarterly wage information on individuals, other data, such as earnings information reported to a State's Department of Revenue, may be available. We are aware that States are using such data for verification purposes in State-administered programs. However, the use of such data is at the option of the States and could be discontinued at any time. To assure that all States have available and use current wage information in administering welfare programs, we have recommended amending the Federal Unemployment Tax Act to require all States to collect individual wage data and to make them available for use in federally funded welfare programs. In those States that do not currently collect wage data for unemployment insurance purposes, but have other similar employer reporting systems, the efforts required to convert to such a system should be minimal.

Use of BENDEX and SDX

Agriculture said that, under its current regulations, the States have the option of verifying Social Security and SSI benefit payments through BENDEX and SDX and it has no plans to mandate such use. The Department stated that States have indicated that sometimes the data obtained through these systems are inaccurate and untimely and that some States believe that using other means, such as applicants' benefit checks or award letters, is more accurate and efficient.

As discussed in our draft report, these alternatives for verifying Social Security and SSI benefits would not identify unreported benefits. Without verifying through the BENDEX or SDX systems (or an SSA District Office), a State is not likely to identify a recipient who falsely denies receiving a benefit. In addition, while some States may have experienced problems with BENDEX and SDX, others have used these systems successfully.

1/The pending legislation is discussed on page 11.

are based on annual salary rates rather than actual wages paid, they are current to within one month. Accordingly, based on the timeliness of OPM's data, we do not believe that using the data would be redundant with SSA's enforcement program.

OPM

OPM supports the legislative recommendations in our report, and stated that, although none of the recommendations are directed to OPM, it is willing to assist in efforts to verify welfare recipients' wages. OPM believes that its Federal employee salary information can play an important role in helping to identify employees receiving welfare payments and can serve as an indication of the actual pay of the employees. OPM said that it has participated in efforts to end fraud and abuse in benefit programs in the past, and is actively participating at this time with the President's Council on Integrity and Efficiency in similar efforts.

In addition to the information on current Federal employees, OPM noted that it also maintains retirement income data in its Civil Service Annuity roll. According to OPM, this information is currently available to public assistance organizations. Although we did not evaluate the use of this retirement income data, we believe the agencies administering benefit programs should consider using these data in their verification processes.

OPM suggested that SSA be the primary source of wage information for use in programs administered by Federal agencies because it would alleviate the need for a Federal agency to go to each State for data. Although we recognize the administrative advantages of using a single data source, particularly for a centrally administered program, we do not agree with OPM's suggestion because of the age of SSA's wage data. However, if currency of information is not a primary consideration in any given program, we believe program managers should have the option of utilizing whatever data source best fits their needs.

OMB

OMB concurred with our recommendations to it and said it currently has the responsibility for carrying them out. Further, OMB agreed that substantial improvements can be made in verifying income and assets for welfare recipients, but said that it believes the primary responsibility for improving the management of Federal/State welfare programs rests with the States.

OMB said the States should be allowed to verify income and assets in ways they believe are most effective and efficient and then be held accountable for the results. It suggested that quality control systems, including the use of fiscal sanctions, be used to hold the States accountable.

recovery of them, and retrospective accounting and monthly reporting both involve the use of data reported by program participants, rather than verifying what they report.

Legislative proposals discussed by OMB that the Congress has not enacted are as follows:

- Make AFDC information available for use in other programs.
- Establish an "Intergovernmental Recipient Information System" (IRIS) to give States a central place to verify income, asset, and benefit data now available from SSA, the Railroad Retirement Board, VA, OPM, and IRS.

We believe that our report demonstrates the need for sharing Federal program information with States for use in federally funded State-administered programs. We also believe, however, that the Congress needs assurance that new systems to assemble and transmit the data are in fact needed.

Through discussions with HHS, we understand that the IRIS is designed to provide Federal agency data to the States for the administration of the AFDC, Medicaid, Title XX Social Services, and Food Stamp programs. We also understand that, to the extent possible, the IRIS will utilize existing systems such as BENDEX and SDX, which is in line with our recommendation in a 1979 report on the "National Recipient System," from which the IRIS evolved. 1/

HUD

HUD said that it fully concurs with our conclusion that there is a need to improve income and asset verification and discussed several of its ongoing projects that relate to our concerns.

Regarding our recommendation that applicants and tenants furnish Federal tax returns at the time of application or recertification, HUD said it prefers to receive written verification of income directly from the source of income. However, HUD said it already suggests in its program handbook that Section 8 Housing managers request copies of tax returns to check the accuracy of information obtained from third parties. Further, HUD said that its regulations to implement 1981 legislative changes will clarify that housing managers may request tax returns from tenants, or waivers to obtain the returns from IRS, and that tenants must provide them on request.

1/Letter to the Secretary of Health, Education, and Welfare, May 29, 1979 (HRD-79-88).

INVENTORY OF CASH AND NONCASH
BENEFITS FOR PERSONS WITH LIMITED
INCOME--FISCAL YEAR 1978

INTRODUCTION

This inventory was compiled from data in a Congressional Research Service Report--Report No. 79-216--EPW dated October 1, 1979. The inventory includes programs that collectively constitute the public welfare system, if welfare is defined as income-tested or needs-based benefits.

Eligibility for most of the programs is based on individual, household, or family income, but for some, the basis is group or area income, and for a few, it is based on presumed need. Most of the programs provide income transfers. That is, they provide assistance in the form of cash, goods, or services to persons who make no payment or render no service in return.

The inventory excludes income security programs that are not income-tested and all but one tax transfer program. The only tax transfer program included is the Earned Income Tax Credit program for low-income workers with children.

Program	Cash Benefits (note a)			Fiscal year 1978 recipients-- average monthly number unless otherwise indicated
	Fiscal year 1978 expenditures			
	Federal	State/ local	Total	
	(millions)			(thousands)
1. AFDC	<u>b/</u> , <u>c/</u> \$6,503	<u>b/</u> \$5,251	\$11,754	10,699
2. SSI	<u>d/</u> 5,490	<u>e/</u> 1,743	7,253	<u>f/</u> 4,200
3. Pensions for Needy Vet- erans, Their Dependents, and Survivors	3,258	-	3,258	<u>g/</u> 3,595
4. Earned Income Tax Credit (note h)	1,170	-	1,170	<u>h/</u> 16,000
5. Assistance to Indochinese Refugees	98	-	98	55
6. Dependency and Indemnity Compensation for Parents of Veterans	86	-	86	62
7. Assistance to Cuban Refugees	72	(i)	72	21
8. General Assist- ance to Indians	50	-	50	62
9. Emergency Assistance to Needy Families with Children	<u>39</u>	<u>39</u>	<u>78</u>	<u>j/</u> 100
Total--Cash	<u>\$16,766</u>	<u>\$7,043</u>	<u>\$23,809</u>	(k)

a/Some other programs provide aid in the form of cash intended for specific goods or services. Examples are the Crisis Intervention Program (utility-fuel aid) listed with the housing group and educational loans and grant programs.

b/Include \$618 million for State-local administrative costs.

c/Plus \$187 million in fiscal relief in 1978 to States and those localities that help fund AFDC.

d/Plus \$27 million for beneficiary services.

e/Includes an estimated \$17 million for administration of State-administered supplements to SSI.

f/At end of fiscal year.

g/Estimates.

h/Earned Income Tax Credit payments were received in the given fiscal year for earnings in the previous tax year.

i/In 1978, the Federal funding share for Cuban refugees aid dropped to 95 percent except for persons eligible for SSI (100-percent Federal funding). HHS lacks data on State-local expenditures.

j/Estimates--about three persons in the average beneficiary family.

k/Due to a high degree of overlap, recipient totals are not shown.

Program	Food Benefits			Fiscal year 1978 recipients-- average monthly number unless otherwise indicated (thousand)
	Fiscal year 1978 expenditures			
	Federal	State/ local	Total	
	(millions)			
1. Food Stamp	a/\$5,618	b/\$285	\$5,903	16,000
2. National School Lunch Program (free and reduced price segments)	c/1,728	d/430	2,158	e/10,500
3. Special Supplemental Food Program for Women, Infants, and Children	398	-	398	1,180
4. Nutrition Program for the Elderly (no income test)	f/182	f/60	242	2,745
5. School Breakfast Program (Free and reduced-price Segments)	185	-	185	2,260
6. Child Care Food Program	132	-	132	502
7. Summer Food Service Program for Children	120	-	120	2,500
8. Special Milk Program (free segment)	28	-	28	g/2,100
9. Food Distribution Program for Needy Families	19	-	19	91
Total--Food Benefits	<u>\$8,410</u>	<u>\$775</u>	<u>\$9,185</u>	(h)

a/Includes \$409 million for administrative costs.

b/Consists wholly of administrative costs.

c/Estimated that commodity donations for free and reduced-price lunches are proportional to their share of total meals.

d/Estimate. Excludes value of donated services. Funding for free and reduced-price lunches is considered proportional to their share of total meals.

e/March school day average number.

f/Federal and non-Federal funds spent on administrative costs at local level are estimated at \$42.1 million.

g/Number served free milk on an average school day.

h/Due to high degree of overlap, recipient totals are not shown.

Housing and Utility Fuel Aid (note a)

<u>Program</u>	<u>Fiscal year 1978 expenditures</u>			<u>Families or dwelling units--total during year, unless otherwise indicated</u> (thousands)
	<u>Federal</u>	<u>State/ local</u>	<u>Total</u>	
	(millions)			
1. Section 502 Rural Housing	<u>b</u> /\$2,691	-	\$2,691	113
2. Low-Rent Public Housing	<u>c</u> /1,768	-	1,768	<u>d</u> /1,051
3. Section 8 Lower Income Housing Assistance	847	-	847	258
4. Section 515 Rural Rental Housing Loans	<u>b</u> /676	-	676	36
5. Section 236 Interest Reduction Payments	617	-	617	<u>e</u> /545
6. Section 101 Rent Supplements	253	-	253	<u>e</u> /172
7. Crisis Intervention Program (Utility-Fuel Aid)	193	-	193	<u>f</u> /, <u>g</u> /866
8. Section 235 Home Ownership Assistance for Low-Income Families	107	-	107	<u>f</u> /, <u>h</u> /262
9. Section 504 Rural Housing Repair Loans and Grant Programs	<u>i</u> /21	-	21	8.4
10. Sections 514 Farm Labor Housing Loans and 517 Farm Housing Grants	<u>i</u> /18	-	18	0.5

<u>Program</u>	<u>Education Aid</u>			<u>Fiscal year 1978 recipients-- average monthly number unless otherwise indicated</u> (thousands)
	<u>Fiscal year 1978 expenditures</u>			
	<u>Federal</u>	<u>State/ local</u>	<u>Total</u>	
	<u>(millions)</u>			
1. Basic Education Opportunity Grants	<u>a/\$2,160</u>	-	\$2,160	<u>b/1,821</u>
2. Headstart	623	\$156	779	<u>c/402</u>
3. Guaranteed Student Loan Program (income test repealed, effective FY 1979)	<u>d/530</u>	-	530	<u>c/1,648</u>
4. College Work-Study Programs	<u>a/435</u>	-	435	<u>b/796</u>
5. National Direct Student Loan Program	<u>a/326</u>	-	326	<u>b/874</u>
6. Supplemental Education Opportunity Grant Program	<u>a/270</u>	-	270	<u>b/463</u>
7. Follow Through	59	15	74	<u>e/76</u>
8. Nursing Student Loans and Scholarship Grants	31	-	31	37
9. Health Professions Student Loans and Scholarship Grants	25	-	25	14
10. Vocational Educational Work Study Program	<u>7</u>	<u>9</u>	<u>16</u>	<u>39</u>
Total--Education	<u>\$4,466</u>	<u>\$180</u>	<u>\$4,646</u>	(f)

a/Appropriations. Program is forward funded; therefore, appropriations for 1 year support students in next.

b/Annual numbers.

c/Children served by full-year and summer programs.

d/Includes \$134 million for default payments.

e/Average school year enrollment.

f/Due to high degree of overlap, recipient totals are not shown.

MATRIX OF THE SIX MAJOR NEEDS-BASED PROGRAMS SELECTED FOR DETAILED REVIEW

	<u>AFDC</u>	<u>Food Stamp</u>	<u>Medicaid</u>	<u>Section 8 Housing</u>	<u>SSI</u>	<u>Title XX</u>
Purpose	Provide aid to needy children and caretaker relatives.	Provide households an opportunity to obtain a more nutritious diet.	Provide medical assistance to welfare recipients and other medically needy persons.	Provide decent affordable housing to low-income families.	Provide cash income for aged, blind, and disabled persons who are in financial needs.	Provide services that promote self-sufficiency.
Form of benefit	Cash.	Food Stamp coupons.	Payment for medical services.	Cash rent subsidy to housing owner.	Cash.	Various social services.
Eligibility group	Families with children lacking parental support.	Low-income "households."	AFDC and most SSI recipients and other medically needy persons at State option.	Low-income "families" (includes single persons who are disabled, elderly, or have been displaced).	Age 65 or older, blind, or disabled.	AFDC and SSI recipients, and others who meet State and Federal income limitations.
Income limit	Income does not exceed 150 percent of State's standard of need.	OMB nonfarm income poverty guidelines as adjusted for consumer price index.	Automatic eligibility for AFDC and SSI recipients in certain States; other groups according to State option.	Family income below 80 percent of the area median income based on HUD standards.	Countable income less than \$203.20 a month; a couple with less than \$312.30 a month.	Income limit not to exceed 115 percent of the State median income for a family of four (adjusted for family size).
Asset limits	\$1,000 equity value per family excluding the home; one auto--\$1,500 equity limit; and items essential for day-to-day living.	\$1,750 per household; except households of two or more with one over 60 years old can have \$3,000.	Same as for AFDC and SSI; can be more liberal for medically needy.	No asset test, but income is imputed at a rate of 10 percent per year of assets in excess of \$5,000.	\$1,500 for an individual and \$2,250 for a couple.	None.
Administration	Federal-State.	Federal-State.	Federal-State.	Federal-local (Public-Housing Authority).	Federal.	Federal-State.
Federal share of administrative costs	50 percent.	50 percent for most costs; others at 60 percent and 75 percent.	50 percent for most costs; others at 75 percent to 100 percent.	100 percent.	100 percent.	75 percent.
Federal share of program costs	50 to 77 percent--varying from State to State.	100 percent.	50 percent to 77 percent, varying from State to State.	100 percent.	100 percent.	75 percent, except for \$200 million provided for day care funded at 100 percent.
People served	10.3 million (average monthly number).	17.7 million (average).	22.9 million.	898,000 units.	4.2 million (average).	8.4 million (1978 estimates).
Program expenditures (fiscal year 1979)	\$12.1 billion.	\$6.9 billion.	\$21.8 billion.	\$1.4 billion.	\$6.8 billion.	\$3.7 billion.

<u>Report title or subject</u>	<u>Report number</u>	<u>Date issued</u>
SSI: Program Integrity in AFDC, Medicaid, SSI, Food Stamp, and VA Pensions	MWD-76-115	3/31/76
Differences in Five Aspects of AFDC, SSI, and Food Stamp	MWD-76-131	5/11/76
Supplemental Security Income Payment Errors Can Be Reduced	HRD-76-159	11/18/76
Privacy Issues and Supplemental Security Income Benefits	HRD-77-110	11/15/77
Review of SSA's SSI Program Concerning Substantial Overpay- ments to Recipients	HRD-78-118	5/22/78
Supplemental Security Income Quality Assurance System: An Assessment of Its Problems and Potential for Reducing Erroneous Payments	HRD-77-126	5/23/78
Improvements Needed to Insure the Accuracy of Supplemental Security Income Retroactive Payments	HRD-79-26	12/11/78
SSA Should Improve Its Collection of Overpayments to Supplemental Security Income Recipients	HRD-79-21	1/16/79
Improvements Needed in the Supplemental Security Income Oral Inquiry Process	-	2/06/79
Accuracy of Benefits Paid to SSI Recipients Who Also Receive Military Retirement Pensions	-	4/11/79
Social Security Should Obtain and Use State Data to Verify Benefits for All Its Programs	HRD-80-4	10/16/79
Implementing GAO's Recommendations on the Social Security Administra- tion's Programs Could Save Billions	HRD-81-37	12/31/80
Millions Can Be Saved by Identifying Supplemental Security Income Re- cipients Owning Too Many Assets	HRD-81-4	2/04/81

<u>Report title or subject</u>	<u>Report number</u>	<u>Date issued</u>
FOOD STAMP:		
Observations on the Food Stamp Program	RED-75-342	2/28/75
Program Integrity in AFDC, Medicaid, SSI, Food Stamp, and VA Pensions	MWD-76-115	3/31/76
Differences in Five Aspects of AFDC, SSI, and Food Stamp	MWD-76-131	5/11/76
The Food Stamp Program--Overissued Benefits Not Recovered and Fraud Not Punished	CED-77-112	7/18/77
Supplement to Comptroller General's Report to the Congress, "The Food Stamp Program--Overissued Benefits Not Recovered and Fraud Not Punished"	CED-77-112A	8/31/77
Problems Persist in the Puerto Rico Food Stamp Program, the Nation's Largest	CED-78-84	4/27/78
Federal Domestic Food Assistance Programs--A Time for Assessment and Change	CED-78-113	6/13/78
Efforts to Control Fraud, Abuse and Mismanagement in Domestic Food Assistance Programs: Progress Made--More Needed	CED-80-33	5/6/80
HOUSING:		
HUD Should Establish Controls Preventing Duplicate Payments in Its Section 8 Housing Assistance Program	CED-79-51	3/1/79
HUD Should Improve Its Management of Acquired, Formerly Subsidized Multifamily Projects	CED-80-31	12/19/79
Section 8 Subsidized Housing--Some Observations on Its High Rents, Costs, and Inequities	CED-80-59	6/06/80

part of FNS' 1981 demonstration project initiative, we will be funding a study to evaluate overall costs, benefits, and comparative merits of various employer-reported earnings data. It is also our intention to require utilization of a data system for matching purposes in areas where it would be cost effective. FNS would then establish certain broad guidelines which will allow States some flexibility in establishing the specifics of their matching programs. We believe that the specifics of a matching program must continue to be an area where discretion on program administration is exercised by the States, to be consistent with the Administration's policy on simplification and deregulation.

Enclosed is a more detailed discussion of your recommendations that are part of our response. FNS staff will be happy to discuss any of our comments with you. We appreciate the opportunity to comment on the draft report.

Sincerely,



MARY C. JARRATT
Assistant Secretary
for Food and Consumer Services

Enclosure

While it is true that in some circumstances SSA data may be over a year old before it is available, in other circumstances it may only be three to four months old. In either event this information can be a useful tool in that it can assist in identification of past overpayments. The food stamp agencies can then effect recovery of overissued benefits. This information is also quite helpful as an area for further exploration when probing for additional income sources at recertification interviews. The fact that a recipient is aware of the eligibility worker's access to such wage data (even if it is dated information) may be instrumental in obtaining accurate, current income information.

The report indicates that SSA has not received requests for its wage data from food stamp agencies. The Food and Nutrition Service (FNS) published proposed rulemaking on this subject on July 10, 1981. It is important to note that SSA does not as yet have an operational system for providing this information. It is our understanding that SSA is in the process of executing necessary data exchange agreements with State welfare agencies for Aid to Families with Dependent Children program purposes. We are hopeful that when our regulations are finalized, the SSA system will be operational and that model data exchange agreements will have been developed.

We agree with the statement that the best automated system for wage information is generally maintained by State employment security agencies. The pending legislation mentioned earlier will require that States utilize this data system where it is available. For those States which are not "wage reporting" States, it may be possible to use other data systems within a State, such as earnings information reported to a State's Department of Revenue. It is important to note that several States in addition to those mentioned in your report are aggressively conducting such wage matches under applicable State law or agreements with their State employment security agencies.

Under current regulations State agencies have the option of verifying Social Security Income (SSI) and SSA benefit payments through SDX and BENDEX. At the present time we have no plans to mandate verification of SSA benefit information through these systems.

State agencies have indicated that SDX and BENDEX data is sometimes inaccurate and untimely. These State agencies believe that verification of SSA benefits via other means such as the examination of the applicant's benefit check itself or examination of the applicant's personal notification of current award from SSA are more accurate and efficient. Again, we would also point out that mandating matching activity would place undue hardships on States where the Food Stamp Program is not yet automated.



THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

2 OCT 1981

Mr. Gregory J. Ahart
Director, Human Resources
Division
United States General
Accounting Office
Washington, D.C. 20548

Dear Mr. Ahart:

The Secretary asked that I respond to your request for our comments on your draft report entitled, "Hundreds of Millions Could Be Saved if Legislative and Administrative Changes Were Made to Require that Certain Data Be Collected and Used to Verify Welfare Recipients' Income and Assets." The enclosed comments represent the tentative position of the Department and are subject to reevaluation when the final version of this report is received.

We appreciate the opportunity to comment on this draft report before its publication.

Sincerely yours,

Richard P. Kusserow
Inspector General

Enclosure

Department Comment

We concur. We have, for the past few years, worked with the State welfare agencies regarding the use of Beneficiary and Earnings Data Exchange (BENDEX) and State Data Exchange (SDX) systems to verify client reported benefits and detect unreported benefits. Most recently we have effected changes in the BENDEX system to provide the State welfare agencies with additional data to allow verification of client reported wages and Social Security numbers. States requesting automated systems development and operational funding under Section 406 of P.L. 96-265 will be required to interface with and utilize data provided by the BENDEX system. (BENDEX now includes wage data as well as benefit data.)

Other Matters

There are several items that should be corrected in the GAO draft report:

On pages ii and 5, inaccurate statements are made that the Title XX Program "automatically provides benefits to people receiving AFDC or SSI."

Under the current Title XX Program, as administered under P.L. 93-64, a State is only required to expend 50% of its Title XX funds for persons receiving AFDC, SSI, Medicaid or for other essential persons. The State sets income levels for determining eligibility for services, except in the case of those services which are provided without regard to income. These income levels may be set at or below AFDC or SSI grant levels.

The Federal requirements identified on page 18 "that a fee be charged certain recipients and that 50% of FFP must be spent on recipients of AFDC, SSI or Medicaid," would not be applicable under the new Social Services Block Grant, proposed to be effective October 1, 1981.

In Appendix II, page 56, under Purpose, four goals for the Title XX Program have been omitted and should be included, they are:

"Achieving or maintaining economic self-support to prevent, reduce or eliminate dependency;

Preventing or remedying neglect, abuse or exploitation of children and adults unable to protect their own interests, or preserving, rehabilitating, or reuniting families;

Preventing or reducing inappropriate institutional care by providing community-based care, home-based care, or other forms of less intensive care; or

COMMISSIONER OF INTERNAL REVENUE

Washington, DC 20224

SEP 23 1981

Mr. William J. Anderson
Director, General Government Division
United States General Accounting Office
Washington, DC 20548

Dear Mr. Anderson:

I appreciate the opportunity to review your draft report entitled "Hundreds of Millions Could be Saved if Legislative and Administrative Changes Were Made to Require that Certain Data be Collected and Used to Verify Welfare Recipients' Income and Assets".

Recommendations contained in the report which bear on Service activities concern certain changes to IRS 6103. The Service has no substantive comment with respect to these proposals, other than to note that we are currently working closely with the Assistant Secretary for Tax Policy (Treasury) in developing an administration policy for changes in 6103.

We do have the following technical comments;

— Use of IRS Data (Page V - Digest and Pages 28-30)

The description of the Information Returns Processed (IRP) File is correct as an overall concept. However, the scope of the data available on the computerized file has certain limitations since only posted data is available for retrieval.

Starting with Tax Year 1978, most W-2/W-2P returns and those 1099/1087 returns filed on magnetic media are posted to this file. Only a portion of the Information Returns filed on paper are processed to the IRP file. Selection of which paper information returns are posted to the file is primarily based on the first letter of the income recipients' surname and amount of the income depending on the type of information returns involved.

— Recommendations to Congress (Page 37)

The fact that there already is a subsection 6103 (1) (8) appears to have been overlooked. We believe that the correct GAO recommendation should be to strike out subsections (1) (7) and (1) (8) and insert proposed subsections (1) (7) and (1) (8). However, because the current subsection (1) (8) does not deal with eligibility for benefits but with "establishing and collecting child support obligations", it should be retained as new subsection (1) (9).

Department of the Treasury Internal Revenue Service

GAO note: Page references in this appendix may not correspond to page numbers in the final report.

U.S. Department of Labor

Assistant Secretary for
Employment and Training
Washington, D.C. 20210



OCT 20 1981

Mr. Gregory J. Ahart
Director
Human Resources Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Ahart:

This is in reply to your letter to Secretary Donovan requesting comments on the draft GAO report entitled, "Hundreds of Millions Could Be Saved If Legislative And Administrative Changes Were Made To Require That Certain Data Be Collected And Used To Verify Welfare Recipients' Income and Assessts."

The Department has reviewed the draft reports recommendations to the Congress and the Office of Management and Budget. At this time, we have no official views regarding these recommendations, although we may later desire to express views to the Congress.

Sincerely,

A handwritten signature in cursive script that reads "Albert Angrisani".

ALBERT ANGRISANI
Assistant Secretary of Labor

public assistance organizations. While not a needs-based program, the disability retirement program does require that OPM collect income information from each disability retiree under age 60. Presently, this information is collected directly from the annuitant. However, we must accept the information submitted at face value since we lack a readily available source of verification.

The Tax Reform Act of 1976 excludes OPM from access to the two most useful files, the Internal Revenue Service's returns file and the Social Security Administration's earnings file. Thus, while supporting the legislative recommendations of GAO in the Draft Report, we would go further and make the Social Security Administration file the primary source of wage data for the administration of needs-based Federal programs. This method would alleviate the exceedingly burdensome requirement that an agency go to each of the 50 states and the District of Columbia before attempting to obtain information from the Social Security Administration.

Though, as stated in your cover letter, none of the recommendations in the Draft Report is directed to OPM, we stand willing to assist this effort regarding verification of recipients' wages; our prior experience in matching programs should be beneficial in any specific endeavor undertaken concerning active and retired Federal employees. We are currently participating actively with the President's Council on Integrity and Efficiency in this regard.

Thank you for the opportunity to review and comment on the Draft Report.

Sincerely,



Donald J. Devine
Director

[The page contains extremely faint and illegible text, likely due to low contrast or poor scan quality. The text is organized into several paragraphs, but the individual words and sentences are not discernible.]

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EXISTING VERIFICATION SYSTEMS

Federal laws and regulations provide varying and generally minimal requirements for income and asset verification for programs not directly administered by the Federal Government. (See p. 8.)

Information on income and assets is verified primarily using manual processes, such as inspections of documentary evidence provided by the applicants and recipients. Automated verification systems are used largely during periodic checks of recipients' continued eligibility; however, the systems GAO identified are used to verify income only, not to verify the ownership of assets. (See p. 8.)

Some Federal and State data are readily available for use by agencies to establish eligibility or to ensure continued eligibility and correct benefit amounts for needs-based programs. Other information that would be valuable for verification purposes is not readily available, and some useful information is not available at all. GAO recognizes that costs would be incurred to make such data available for verification but believes the benefits would significantly outweigh these costs. (See p. 14.)

AVAILABILITY AND USE OF WAGE DATA

Unreported or underreported wages is one of the principal causes of overpayments in needs-based programs. There are three automated sources of wage data that could be useful to program managers in verifying information reported by applicants and recipients--one at the State level and two at the Federal level. (See p. 14.)

In 38 States, wage data are reported to State employment agencies for each employee quarterly and are generally acknowledged to be the best wage information for verification purposes in administering Federal and State needs-based programs. These wage data are being used extensively by many of the 38 States; however, some uses may be in conflict with current Federal law. (See pp. 14 and 15.) While 38 States require employers to report wages paid to each employee, the other 12 collect only gross payroll information.

NEED FOR SOCIAL SECURITY NUMBERS

The automated wage data bases and the IRS data are all accessed using a social security number (SSN). When a welfare recipient file is also accessible through an SSN, direct comparisons between the welfare file and the automated data bases are facilitated. The Federal Government requires that applicants for some, but not all, programs provide an SSN as an eligibility condition. (See p. 22.)

RECIPIENT-SUPPLIED FEDERAL INCOME TAX RETURNS

One nonautomated data source that could be used to verify recipients' alleged income and assets is recipient-supplied Federal income tax returns. For nongovernmental administering agencies, such as Section 8 Housing managers, the use of Federal income tax returns as a verification technique has a strong potential. (See p. 22.)

RECOMMENDATIONS TO THE CONGRESS

GAO recommends that the Congress:

- Amend the Federal Unemployment Tax Act to require that all States collect individual wage information on a quarterly basis for use in their unemployment insurance programs and in federally funded needs-based programs.
- Delete section 303(d) of the Social Security Act that restricts the use of State wage data to only the Food Stamp program.
- Amend the Tax Reform Act of 1976 to permit disclosure of data on individual wages, net earnings from self-employment, and payments of retirement income maintained by SSA to Federal, State, and local agencies administering federally funded needs-based programs, whenever comparable data are not available at the State level.
- Amend the Tax Reform Act of 1976 to permit disclosure of the IRS Information Return Processing File data on sources and amounts of unearned income to Federal, State, and local agencies administering federally funded needs-based programs.
- Require that SSNs be obtained for applicants and recipients of federally funded needs-based programs where not already required.

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ABBREVIATIONS

AFDC	Aid to Families with Dependent Children
BENDEX	Beneficiary Data Exchange
FNS	Food Nutrition Service
GAO	General Accounting Office
HCFA	Health Care Financing Administration
HHS	Department of Health and Human Services
HUD	Department of Housing and Urban Development
IRIS	Intergovernmental Recipient Information System
IRP	Information Return Processing
IRS	Internal Revenue Service
OMB	Office of Management and Budget
OPM	Office of Personnel Management
RSDI	Retirement, Survivors, and Disability Insurance
SDX	State Data Exchange
SSA	Social Security Administration
SSI	Supplemental Security Income
SSN	Social Security Number

- the number of significant federally supported programs which rely on income or asset information to determine eligibility or the amount of benefits,
- the extent to which income or asset information obtained from applicants or recipients is verified,
- the adequacy of the information obtained and the effectiveness of the verification procedures, and
- the impact of Federal and State laws that restrict the exchange and use of income and asset information for welfare administration.

NATURE OF WELFARE PROGRAMS

We identified 58 needs-based programs which are listed in appendix I. Most of the programs are "income transfer" programs--they transfer cash, goods, or services to persons who make no payment or render no services in return. However, some recipients must work or attend classes to receive benefits from some of the employment, training, and educational programs included in this inventory.

From the inventory of 58 programs costing about \$81 billion in fiscal year 1978, we selected 6 programs which cost about \$48 billion for our detailed review of verification requirements and procedures. Appendix II is a matrix diagram showing the basic characteristics of the six programs. The following chart shows for fiscal year 1979 the number of beneficiaries, the expenditures, and the Federal departments responsible for these programs.

ESTIMATES OF IMPROPER PAYMENTS

We obtained agencies' estimates of erroneous payments resulting from recipients not reporting or underreporting their income and assets, whether caused by misunderstanding or deliberate misrepresentation, for five of the six programs. Data were not available to enable us to develop an estimate for the Title XX Social Services program.

We were able to obtain fiscal year 1979 estimates for three programs (AFDC, SSI, and Medicaid), but the latest data available for the other two programs (Food Stamp and Section 8 Housing) were for calendar year 1978. Also, the data on improper payments for the Section 8 Housing program relate only to income because no information was available on improper payments caused by incorrectly reported assets.

The estimates of improper payments ranged from \$42 million in calendar year 1978 for the Section 8 Housing program to \$213 million in fiscal year 1979 for the AFDC program. Further details on the estimates of improper payments caused by recipients not reporting or underreporting income and assets for the five programs follow:

<u>Program</u>	<u>Amount</u>			<u>Federal</u>	<u>State</u>	<u>Time period</u>
	<u>Income related</u>	<u>Asset related</u>	<u>Total</u>			
	(millions)					
AFDC	\$173	\$ 40	\$213	\$115	\$ 98	FY 1979
SSI	91	103	194	155	39	FY 1979
Medicaid	56	151	207	116	91	FY 1979
Food Stamp	173	38	211	211	-	CY 1978
Section 8 Housing	<u>42</u>	<u>-</u>	<u>42</u>	<u>42</u>	<u>-</u>	CY 1978
Total	<u>\$535</u>	<u>\$332</u>	<u>\$867</u>	<u>\$639</u>	<u>\$228</u>	

The estimates of overpayments for the first four programs were developed from the agencies' quality control system reports. HUD's Division of Housing Research developed the Section 8 Housing amount as an estimate of the potential reduction in overpayment errors that would result from a thorough income verification process.

Some recipients of these overpayments may also be improperly receiving benefits from other needs-based programs. The Title XX Social Services program, as well as several other needs-based

to be measures of the adequacy of verification methods, rather than verification methods in and of themselves.

SCOPE AND METHODOLOGY OF REVIEW

We made our review at the Washington, D.C., headquarters and the Boston, Dallas, and San Francisco regional offices of Agriculture and HHS; at the Washington, D.C., headquarters and San Francisco offices of HUD; and in California, Louisiana, Massachusetts, New Hampshire, and Texas.

We selected these States for the following reasons:

- California has one of the largest welfare populations in the Nation, and we knew that for one of our selected programs, AFDC, it has an extensive verification system and a comparatively low rate of erroneous payments for a large State.
- Louisiana has a smaller welfare population, and it improved our geographical coverage.
- Massachusetts reportedly did not have a good system for determining eligibility and verifying data for welfare programs.
- New Hampshire reportedly had a good system for determining eligibility and verifying data for welfare programs.
- Texas, like New Hampshire, reportedly had a good verification system.

In all of these States, we did work at the State and local welfare agencies involved in administering the AFDC, Food Stamp, Medicaid, and Social Services programs and at selected entities, such as State employment security agencies, that provide data to the welfare agencies for use in their verification systems. In California, we also did work at governmental and nongovernmental entities involved in administering the SSI and Section 8 Housing programs.

We reviewed the applicable Federal and State laws, regulations, and implementing instructions relating to eligibility determinations and data verification, including those established to safeguard data. We also reviewed the results of numerous studies and demonstration projects that related to verification of income and assets.

CHAPTER 2

ELIGIBILITY DETERMINATIONS AND VERIFICATION

REQUIREMENTS IN THE SELECTED PROGRAMS

Federal laws and regulations provide very general or minimal requirements for verifying income and asset information to determine eligibility for needs-based programs. In State-administered programs, for example, with the exception of requiring that wage data be obtained for all AFDC applicants, Federal laws and regulations do not address the issue of verifying applicants' declarations that they have no income or assets. Therefore, if applicants state that they have no income or assets, the agency is not required by law to verify the truth of the statement.

Because of the latitude allowed administering agencies in verifying income and assets, and the current restrictions on the availability and use of automated data bases (as discussed in ch. 3), current verification practices are basically manual documentation reviews based on information provided by applicants and recipients. Automated verification systems are used for the most part during periodic checks of recipients' continued eligibility, that is after an applicant has been found eligible for a program and has begun receiving benefits.

Generally, State-administered programs have access to the greatest amount of automated data; however, the use of the data varies among the States. Furthermore, the use of these data in administering each program may vary within a State. The federally administered SSI program has access to the same data that SSA furnishes to the States, but it generally does not have automated access to State program or wage data. Because the Section 8 Housing program is administered through third parties, it does not have any programwide automated verification system.

The remainder of this chapter discusses the responsibilities of the Federal, State, and private administering entities in establishing eligibility and the degree of verification of income and assets required for the six programs we reviewed.

OVERVIEW OF THE SSI PROGRAM ADMINISTERED BY THE FEDERAL GOVERNMENT

The SSI program was enacted in 1972 (42 U.S.C. 1381) as title XVI of the Social Security Act to provide cash assistance to needy aged, blind, and disabled persons on the basis of uniform national eligibility criteria.

SSA administers SSI through its 10 regional offices and more than 1,300 field offices. States may, at their option, supplement

including those related to verification, prepare manuals and guidelines for them, implement them, and monitor them using quality control procedures.

In a State-supervised system, such as California's, the State government is not directly involved in the day-to-day operation of the assistance programs. In California, the State is responsible for the overall management of the programs, but each of the 58 counties is responsible for day-to-day program operations. The responsible State agencies (the Departments of Social Services and Health Services) provide the counties with general guidance through regulations and interpretations of policy and suggest methods for verifying income and assets.

ROLE OF THE FEDERAL GOVERNMENT IN THE STATE-ADMINISTERED PROGRAMS

The amount of Federal involvement with the four State-administered programs (AFDC, Food Stamp, Medicaid, and Social Services) varies. Federal financial participation varies as does the extent to which the Federal Government is involved with the administration of each program at the State level.

In general, Federal involvement is limited to approving State operating plans to assure compliance with laws and regulations, monitoring State activities through quality control reviews, providing technical assistance to the States, and identifying improved approaches to program administration.

In most cases, Federal laws and regulations establish general or minimal eligibility criteria and leave it to the States to further define the criteria. The States must also develop and implement policies and procedures for verifying the accuracy of information provided by program applicants.

AFDC

The Federal Government permits each State to tailor its AFDC program to meet its needs and philosophy within broad Federal parameters relating to funding reimbursement formulas, income and resource limitations, and the inclusion of specific family groups and individuals in the program. States are allowed to define such concepts as "needy" and "parental deprivation." States also have the option of extending program eligibility to such groups as (1) intact families whose principal wage earner is unemployed, (2) pregnant women, and (3) children 18 years old who are full-time students in secondary or technical schools and expect to complete school before age 19. In addition, the States are permitted to independently establish their own benefit levels.

purchase food stamps must be mailed no later than the close of business on the second workday after the application date or must be available to be picked up by a household member no later than the start of business on the third workday. An eligibility worker must verify identity and residency through third-party contacts or documentary evidence, but benefits may not be delayed solely because income or other required information has not been verified. The worker must postpone normally required verifications, if necessary, to meet the time limits for expedited service.

Medicaid

By Federal law, AFDC recipients are automatically eligible for Medicaid. In most States SSI recipients are also automatically eligible; but States may impose more restrictive eligibility criteria than those for SSI, and 15 States do. These States are required to permit all aged, blind, and disabled persons to "spend down" to the Medicaid eligibility level by applying their excess income and resources to their medical expenses. Each State also has the option of offering Medicaid to the "medically needy." These are people who meet the eligibility criteria for AFDC or SSI except for income and resource limitations, but are unable to pay for their medical care. These people are also required to "spend down" to their Medicaid eligibility level.

Medicaid regulations contain no Federal requirements concerning verification of income or assets. However, about 80 percent of the Medicaid recipients also receive AFDC or SSI and are subject to the verification requirements and procedures of those programs.

Social Services

The Title XX Social Services program law and regulations in effect until October 1981 were fairly liberal on such matters as what services could be provided and who could receive services. States could decide what services to provide, who could receive services, and whether to charge a fee. Federal law did impose two restrictions: (1) a fee had to be charged to persons whose income was above a specified limit and (2) at least 50 percent of the Federal funds had to be spent on the recipients of AFDC, SSI, or Medicaid. 1/

1/The program was changed to "Block Grants to States for Social Services" under Pub. L. No. 97-35 effective October 1, 1981, giving the States even greater flexibility in operating their programs. The two restrictions relating to fees and recipients are no longer applicable.

CHAPTER 3

THE FULL POTENTIAL OF INCOME AND ASSET

VERIFICATION TECHNIQUES IS NOT BEING REALIZED

Generally, welfare applicants and recipients are the principal source for income and asset information used in making eligibility and level of benefit determinations. Erroneous payments are made because applicants and recipients either do not report their income or assets at all or report them incorrectly and because the welfare agencies' verification systems do not identify the errors. Improved verification systems would help identify unreported or underreported income and assets and thus would reduce the amount of improper payments.

Some Federal and State data are readily available for use by Federal and State administering agencies in establishing or assuring continuing eligibility and correct benefit levels for needs-based programs. Other information that would be valuable for verification purposes is not readily available, and some useful information cannot be obtained by administering agencies.

Some agencies that administer welfare programs have made extensive use of the data that are available to them, but others only use such data when mandated by Federal legislation. Improvements are needed in Federal legislation making data available and in agencies' use of such data.

While it is generally recognized that additional costs would be incurred to make income and asset information available and to use it for verification in welfare programs, data were not available to enable us to develop estimates of these costs.

AVAILABILITY AND USE OF WAGE DATA

Unreported or underreported wages are a principal cause of overpayments in needs-based programs. There are three automated sources of wage data that could be useful to program managers in verifying eligibility information--one at the State level and two at the Federal level. Each of these sources, however, has limitations or restrictions that hamper its usefulness for verification purposes.

State wage data

The automated wage data maintained by the States are collected from employers by State employment security agencies to determine eligibility and benefits under the unemployment insurance program. In 38 States these data are reported for each employee quarterly and are generally considered to be the best wage information for

State welfare agencies for other programs, such as Medicaid, although they are not required to do so. Only in the laws passed for the AFDC and Food Stamp programs has the Congress restricted the use of the wage data once they reach the welfare agencies. The Congress would have to amend these two laws to remove the restrictions. This report includes recommendations to the Congress to remove the restrictions.

On the other hand, because the Federal Unemployment Tax Act in effect leaves disclosure of State wage data to the discretion of the States (with the exception of its required use for the AFDC program), they can withhold the data from use in other programs.

In addition to the restrictions discussed above, the use of State wage data for verification purposes is limited because the data do not include Federal employees, the military, and the self-employed and are not available in all States. Currently, only 38 States require employers to report wages paid to individual employees each quarter. These are called "wage reporting" States. The other 12 States collect only gross payroll information and are called "wage request" States.

In a 1978 report on the unemployment insurance program, we recommended that the Secretary of Labor encourage jurisdictions to implement wage reporting. ^{1/} In commenting on the recommendation, Labor stated that "The Unemployment Insurance Service favors quarterly wage reporting, however, it has no authority to require States to adopt this system." In discussing the availability and use of State wage data, Labor officials said that the Department still favors quarterly wage reporting and believes converting all States to this system would be cost effective for the unemployment insurance program alone.

In this regard, the National Commission on Unemployment Compensation has also supported the concept of having all States use a wage reporting system. In the Commission's July 1980 final report, it recommended that "all States require employers to submit quarterly wage records to the State UI [Unemployment Insurance] agencies." The Commission had found wage reporting to be advantageous in detecting fraud and overpayments in the Unemployment Compensation program and that, although conversion would be costly, the lower operating costs of the wage reporting system would eventually offset the conversion costs.

Labor officials said their only concern about making State wage data available for verification purposes to additional needs-

^{1/}"Unemployment Insurance--Need to Reduce Unequal Treatment of Claimants and Improve Benefit Payment Controls and Tax Collections" (HRD-78-1, Apr. 5, 1978).

AFDC program beginning in October 1979, but until April 1981 it had only done so on a test basis. Not until July 1981, was SSA able to provide the States with comprehensive 1979 wage information. As of October 1981, SSA had provided 1979 data to eight States for AFDC purposes, but had not received any requests for wage data from Food Stamp agencies which have been allowed to obtain these data since May 1980.

In the Federal regulations to implement Public Law 95-216, HHS required that the States maintain information to measure the results and cost effectiveness of using State and SSA wage data in the AFDC program. At the time of our review, this information was not yet available.

OPM wage data

The second Federal automated source of wage data is OPM which maintains data on the salaries of Federal civilian employees. These OPM data could be obtained by Federal and State agencies under current legislation. The data, however, are presently used in only one program we reviewed--SSI, which is administered by SSA.

As noted previously, many local welfare agencies use wage information from their own State employment security agencies for their public assistance programs. While the State wage data are generally considered better than SSA's data, they are subject to the limitation that they do not include information on Federal civilian employees. This limitation could be overcome if States had access to the employment information that OPM maintains on Federal civilian personnel. Another advantage of States' using OPM data is that the data are more current than SSA's.

OPM data could be made available to States under current legislation. OPM regulations permit the disclosure to the public of an employee's name and his or her past and present positions, grades, salaries, and duty stations. The Federal agencies responsible for administering each of the needs-based programs would have to comply with OMB's guidelines under the Federal Privacy Act of 1974 for data matching, and OPM would have to establish release of its information as a routine use under the Privacy Act.

OPM data on salaries of Federal civilian employees were used in 1979 by HHS in a special project to identify improper welfare payments. According to HHS the project paid for itself several times over by identifying AFDC, Medicaid, and Food Stamp overpayments.

AVAILABILITY AND USE OF IRS DATA

Restrictions on the use of IRS data, established by the Tax Reform Act of 1976 because of concerns about individual privacy,

verification of income and resources. 1/ The Tax Reform Act permits such disclosures if authorization is given by the taxpayer.

The Congress has considered making tax return information, other than SSA's wage data, available for use in administering public assistance programs. The Social Welfare Reform Amendments of 1979 (H.R. 4904), if enacted, would have authorized the disclosure of information on net earnings from self-employment, wages, and retirement income to State and local agencies for (1) determining eligibility for benefits under assistance programs administered under the Social Security Act and (2) administering the Child Support Enforcement program.

The House Committee on Ways and Means' position on the use and release of such information is reflected in the following statement from its report on H.R. 4904. 2/

"The Committee believes that there should be a greater flow of tax return information from the Social Security Administration to the Department of Health, Education, and Welfare, State and local child support enforcement agencies, and State welfare agencies, in order to provide for greater assistance in efforts to reduce fraud, errors, and abuses in the various aid and assistance programs administered under the Social Security Act."

The only portion of the original proposal that was enacted was the part making data on net earnings from self-employment available to child support enforcement agencies.

In summary, current laws restrict the release of (1) tax return information to SSA's wage data for State agencies' use in the AFDC and Food Stamp programs and (2) SSA's data on wages and net earnings from self-employment to child support enforcement agencies.

AVAILABILITY AND USE OF SSA BENEFIT DATA

SSA's social security and SSI benefit data are available for use in administering federally supported public assistance programs. State agencies that administer the AFDC, Food Stamp, Medicaid, and Title XX Social Services programs can obtain benefit data from SSA and make the data available to local welfare offices.

1/"Millions Can Be Saved by Identifying Supplemental Security Income Recipients Owning Too Many Assets" (HRD-81-4, Feb. 4, 1981).

2/H. Rept. 96-451, Part 1, September 20, 1979.

financial data from the SDX data base are automatically available to eligibility workers for verification purposes in all four State-administered programs we reviewed.

In contrast, California does not use SDX data in a uniform manner for all four State-administered programs. On a statewide basis, SDX data are used primarily by the Department of Health Services in administering Medicaid. Each of California's 58 counties receives SDX data that could be used in administering the other three programs. However, the actual use of the data varies significantly.

One county we visited matches its SDX data with its entire public assistance file. Through these matches the county can identify SSI recipients who are also receiving food stamps they are not eligible for. In California, Food Stamp benefits are included in the SSI cash payment. The county also matches AFDC cases and the SDX data to make sure the SSI benefit has been correctly considered in computing the AFDC grant. In another county, SDX data are available to eligibility workers in microfiche format. Although the data could be used for verification purposes in any of the State-administered programs, they are used primarily in the Medicaid program. This county does not use the SDX data in any automated fashion.

USE OF SSNs IN AUTOMATED VERIFICATION SYSTEMS

The automated data bases we have discussed are all accessed using SSNs. When a welfare recipient file is also accessible through SSNs, and numbers are available for recipients, direct comparisons between the welfare file and the automated data bases are facilitated.

The Federal Government requires that an applicant for AFDC, Food Stamp, or SSI benefits provide an SSN as an eligibility condition. States whose systems of records meet certain requirements are also permitted to require SSNs for Medicaid eligibility. Program administrators can ask applicants of the other programs we reviewed for their numbers, but eligibility and benefits cannot be denied if the applicant refuses to provide the number.

To maximize verification through automated data bases, program administrators should obtain valid SSNs for all applicants and recipients of needs-based programs.

POSSIBLE USE OF FEDERAL TAX RETURNS OBTAINED FROM RECIPIENTS

One nonautomated data source that could potentially be used to verify recipients' alleged income and assets is recipient-

recipients. To some extent, constraints created by Federal legislation on the use of available data that would be useful for verification purposes exacerbate the problem. In some instances, Federal legislation specifically restricts disclosures of information. In other instances, the absence of an affirmative statement in the law allows States or Federal agencies to withhold the use of relevant data. Additionally, some useful data are available, such as wage information on Federal employees, which are not precluded by Federal legislation from being used for needs-based program purposes. However, these data are generally not used by State and local program administrators.

Some of the data that we believe should be made available for verification purposes, with appropriate safeguards, are considered tax return data. As we stated in a June 1980 report, one of the basic principles related to the use of tax data is that:

--Taxpayers who supply information to IRS have a basic right to privacy with respect to that information. Such information should be subject to disclosure for nontax purposes only when society has a compelling interest which outweighs individual privacy concerns. 1/

Because of the substantial monetary and programmatic benefits that are involved, we believe that existing legislative or administrative constraints that hinder efficient and effective methods of income and asset verification should be removed.

We recognize that additional costs would be incurred in accumulating, distributing, and using the automated income and asset information for verification in needs-based programs as discussed in this report. We believe, however, that the benefits would significantly outweigh the costs.

Only the State wage data would require additional costs to accumulate. However, this requirement would affect only 12 States because the other 38 already report individual employee wage data. Both the Department of Labor and a National Commission on Unemployment Compensation believe it would be cost effective for the unemployment insurance program alone to have all States collect quarterly wage data on individual employees which would make it more useful for verification in welfare programs.

Only limited estimates or data were available to enable us to develop estimates of the costs to distribute and use the

1/"Disclosure and Summons Provisions of 1976 Tax Reform Act--An Analysis of Proposed Legislative Changes" (GGD-80-76, June 17, 1980).

of Labor) to insure that such information is used only for the purposes authorized in subparagraph (B)."

Further, we recommend that section 303(d) of the Social Security Act be deleted. (This section restricts the use of State wage data provided to Food Stamp agencies to use in the Food Stamp program.)

- II. Amend the Tax Reform Act of 1976 to permit disclosure of individual wage data, data on net earnings from self-employment, and payments of retirement income maintained by SSA to Federal, State, and local agencies administering federally funded needs-based programs, whenever comparable data are not maintained at the State level.

We suggest that 26 U.S.C. 6103 (1) be amended by striking out subparagraph (7) and inserting in lieu thereof:

"(7) Disclosure of certain return information by the Social Security Administration to Federal, State and local agencies for administering federally funded needs-based programs.

(A) In General - the Commissioner of Social Security shall disclose return information with respect to wages (as defined in section 3121(a) or 3401(a)), net earnings from self employment (as defined in section 1402), and payments of retirement income which have been disclosed to the Social Security Administration as provided by paragraph (1) or (5) of this subsection, upon written request to the appropriate Federal, State or local agency for federally funded needs-based programs whenever comparable data are not available at the State level.

(B) Restriction on Disclosure - The Commissioner of Social Security shall disclose return information under subparagraph (A) only for purposes of, and to the extent necessary in, determining an individual's eligibility for benefits, or the amount of benefits, under federally funded needs-based programs."

- III. Amend the Tax Reform Act of 1976 to permit disclosure of the IRS IRP file data on unearned income to Federal, State, and local agencies administering federally funded needs-based programs.

RECOMMENDATIONS TO THE SECRETARIES
OF AGRICULTURE AND HHS

We recommend that, for their programs that we reviewed, the Secretaries:

- Acquire and make OPM wage data available to agencies that administer the programs. (In this regard administering agencies would have to comply with the OMB guidelines for data matching under the Federal Privacy Act of 1974.)
- Require that, in administering the programs, Federal, State, and local agencies use available Federal and State wage data and SSA retirement income and benefit data provided by BENDEX and SDX.

RECOMMENDATIONS TO THE
SECRETARY OF HUD

We recommend that the Secretary:

- Require applicants for and tenants of Section 8 Housing to furnish copies of their Federal tax returns at the time of application and of recertification for use in determining their eligibility for rental assistance.
- Require that available Federal and State wage data are used in HUD's annual Section 8 Housing management reviews to verify that housing managers are accurately determining applicants' or tenants' income.

BUDGETARY IMPACT OF
OUR RECOMMENDATIONS

We believe that implementing our recommendations would result in avoiding a substantial part of the Federal expenditures related to overpayments in welfare programs caused by recipients not properly reporting their income and assets. As shown in the table on the next page, if the estimated overpayments for the programs we reviewed had been avoided, the Federal savings, excluding implementation costs, would have been about \$639 million in fiscal year 1979. The comparable savings would be about \$1 billion in fiscal year 1982 and probably more in fiscal year 1983 and beyond.

CHAPTER 4

AGENCY COMMENTS AND OUR EVALUATION

We requested written comments on a draft of this report from Agriculture, HHS, HUD, IRS, Labor, OMB, and OPM. We received written responses from all these agencies.

Labor said it had no comments, and IRS said it had no substantive comments with respect to our recommendations relating to its operations. IRS suggested some technical changes to our proposed legislative language. We have made the appropriate changes in the report to recognize these and technical points raised by other agencies.

Although the agencies concurred in general with our recommendations, some expressed certain reservations and/or made suggestions about additional data sources that could be used for verification purposes and other programs that could benefit from data exchange. As stated on page 7 of this report, the data sources and possible uses discussed in the report are not all inclusive. We concentrated on those sources and uses which we believe have the greatest potential for reducing erroneous welfare payments.

Our analysis of the agencies' comments and their suggestions about additional data sources and uses follow.

AGRICULTURE

In response to our recommendation that the Department ensure that OPM wage data are available for use in the Food Stamp program, Agriculture stated that its Office of Inspector General is currently matching recipient files with OPM's files of Federal employees for selected areas of the country. The Department said that, based on the results of this effort, it will consider having the States assume more responsibility in the area.

Regarding our recommendation that the Secretary require that Federal and State wage data and SSA retirement income and benefit data be used in administering the Food Stamp program, the Department generally supported the use of wage data but expressed reservations about mandating such use. Further, the Department questioned the merits of requiring the use of SSA benefit data provided through BENDEX and SDX.

Accordingly, we believe that States should use the data provided through these systems.

Mandating data matching

Agriculture said it plans to require data matching under broad guidelines, but expressed concern about mandating specific wage and benefit data matching because it believes "such a mandate would place undue hardships on States where the Food Stamp program is not yet automated." The Department also believes that the specifics of data matching should continue to be an area of the States' discretion.

The thrust of our report is that existing data should be made available to Federal, State, and local agencies and should be used in administering welfare programs. In our opinion, whether the information is used in an automated or nonautomated manner does not detract from the advantages gained by having the data available for verification. Also, because of the significant overpayments in welfare programs, we believe the use of certain data should be mandated, as the Congress has done with wage data for the AFDC and Food Stamp programs, rather than left to the States' discretion.

HHS

HHS generally concurred with our recommendation that Federal and State wage data and SSA benefit data be used in administering welfare programs, and stated it is working with the States to improve their capability to use SSA data. The Department expressed some reservations, however, about the benefit of using OPM wage data in the SSI program.

HHS said that within the next few months it will explore the feasibility of making OPM data available to the States for use in the AFDC, Medicaid, and Title XX Social Services programs. The Department stated, however, that it believes that the use of OPM data in the SSI program would be redundant, and therefore not cost effective, because it has an "enforcement process" for SSI which takes into consideration wages paid to Federal employees.

In discussing HHS' comments, we were told by SSA that the "enforcement process" consists of matching the SSI rolls with wage data contained in SSA's Earnings Reference File. SSA said it has made one such match using 1979 wage data and plans to make a similar match when the 1980 wage information becomes available.

As discussed on page 17 of this report, SSA collects wage information on an annual basis and it can be well over a year old before it is available for use by SSA or other Federal, State, and local agencies. In contrast, while we recognize that OPM's data

As we stated in a recent report on the AFDC quality control system, 1/ fiscal sanctions create an adversary relationship between the Federal Government and the States at a time when cooperative effort is needed to reduce errors. Using quality control systems as the basis for sanctions limits the systems' value as a means for improving payment processes. Further, as stated on page 5 of this report, quality control is not within our definition of systematic verification of applicant and recipient income and assets, but is a measure of the adequacy of verification systems that are used. Quality control measures the adequacy of efforts to avoid overpayments and, as such, is a useful tool. We believe that the significant overpayments identified by the quality control systems of the programs we reviewed demonstrate this. We also believe, however, that preventing overpayments through verification is more desirable than attempting to recover overpayments from the States through such means as fiscal sanctions.

OMB also discussed several legislative proposals that the administration has made to address the problems we pointed out.

Legislative proposals, discussed by OMB, that the Congress has enacted are as follows:

AFDC

- States must attempt to recover all overpayments.
- The amount of assets an applicant or recipient can own was lowered.
- States must use monthly retrospective accounting and recipients must report their income monthly.

Food Stamp

- States must use specified methods to recover overpayments.
- States must initiate retrospective accounting procedures and periodic reporting systems.

While we agree that these provisions should help improve the operation of these two programs, we do not believe that they address the problems of having and using adequate data to verify information reported by applicants and recipients. Verification should result in the avoidance of overpayments rather than the

1/"Better Management Information Can Be Obtained From the Quality Control System Used in the Aid to Families With Dependent Children Program" (HRD-80-80, July 18, 1980).

Our recommendation that applicants and tenants be required to furnish copies of their tax returns implies that housing managers be required to request the returns. We believe HUD should revise its proposed regulations to require, rather than allow, the managers to request the tax returns.

In response to our recommendation that HUD use Federal and State wage data in its annual management reviews, HUD said the idea has merit as long as wage records are readily available, current, and accurate. However, HUD questioned the cost effectiveness of its using the data because of the staff and computer time which would currently be needed to overcome the problems of availability and age of the data.

We believe that our recommendations to the Congress, if implemented, should significantly reduce the problems concerning HUD, and we believe HUD should use the wage data in its annual management reviews.

Summary of Expenditures for Major Needs-Based
Benefit Programs--Fiscal Year 1978

<u>Kind of aid</u>	<u>Number of programs</u>	<u>Federal</u>	<u>State/local</u>	<u>Total</u>
		(millions)		
1. Cash benefits	9	\$16,766	\$ 7,043	\$23,809
2. Medical care	7	15,375	8,583	23,958
3. Food benefits	9	8,410	775	9,185
4. Jobs and training	9	8,704	61	8,765
5. Housing and fuel	12	7,206	-	7,206
6. Education	10	4,466	180	4,646
7. Other services	<u>2</u>	<u>2,905</u>	<u>800</u>	<u>3,705</u>
Total	<u>58</u>	<u>\$63,832</u>	<u>\$17,442</u>	<u>\$81,274</u>

Program	Medical Care			Fiscal year 1978 recipients-- average monthly number unless otherwise indicated (thousands)
	Fiscal year 1978 expenditures			
	Federal	State/ local	Total	
	(millions)			
1. Medicaid	<u>a/\$10,611</u>	<u>b/\$8,338</u>	\$18,949	8,715
2. Medical Care for Veterans with a Non-Service- Connected Disability	<u>c/3,789</u>	-	3,789	1,043
3. Indian Health Services	381	-	381	326
4. Maternal and Child Health Services	214	<u>d/95</u>	309	5,836
5. Community Health Centers	247	-	247	<u>e/3,047</u>
6. Crippled Children's Services	98	150	248	<u>e/571</u>
7. Migrant Health Centers	<u>35</u>	-	<u>35</u>	<u>e/557</u>
Total--Medical care	<u>\$15,375</u>	<u>\$8,583</u>	<u>\$23,958</u>	(f)

a/Includes \$551 million for State-local administration.

b/Includes \$433 million for State-local administration.

c/Estimate. Based on assumption that 80 percent of Veterans Administration medical care recipients have a non-service-connected disability. Recipient count is the estimated number of such patients treated during the year.

d/Minimum match required by law. Most States spend more, but data are unavailable.

e/Annual number served.

f/Due to a high degree of overlap, recipient totals are not shown.

<u>Program</u>	<u>Job Training</u>			<u>Fiscal year 1978 recipients-- average monthly number unless otherwise indicated</u> (thousands)
	<u>Fiscal year 1978 expenditures</u>			
	<u>Federal</u>	<u>State/ local</u>	<u>Total</u>	
	----- (millions) -----			
1. CETA Title VI (Countercyclical Public Services Employment Program)	\$4,769	-	\$4,769	<u>a/461</u>
2. CETA Title II (Comprehensive Employment and Training Services)	1,992	-	1,992	<u>a/323</u>
3. Summer Youth Employment Program (CETA Title IV-A)	670	-	670	<u>a/1,009</u>
4. Youth Employment Demonstration Programs (CETA Title IV-A)	386	-	386	398
5. Work Incentive Program	364	41	405	<u>b/1,013</u>
6. Job Corps (Comprehensive Employment and Training Act, Title IV-B)	280	-	280	<u>a/26</u>
7. Community Service Employment for Older Americans	<u>c/201</u>	20	221	48
8. Foster Grandparents	35	-	35	<u>d/17</u>
9. Senior Companions	<u>7</u>	<u>-</u>	<u>7</u>	<u>d/3</u>
Total--Jobs and training	<u>\$8,704</u>	<u>\$61</u>	<u>\$8,765</u>	<u>3,298</u>

a/Onboard enrollments, end of fiscal year.

b/New registrant only.

c/Includes estimated administrative costs of \$22.1 million.

d/Number of volunteers at end of year.

<u>Program</u>	<u>Fiscal year 1978 expenditures</u>			<u>Families or dwelling units--total during year, unless otherwise indicated</u>
	<u>Federal</u>	<u>State/Local</u>	<u>Total</u>	
	(millions)			(thousands)
11. Indian Housing Improvement Grants	<u>j/\$ 11</u>	-	\$ 11	<u>k/4.5</u>
12. Section 523 Rural Self-Help Technical	<u>4</u>	-	<u>4</u>	<u>1/0.8</u>
Total Housing (and fuel)	<u>\$7,206</u>	=	<u>\$7,206</u>	<u>f/3,316</u>

a/The Congress enacted Public Law 96-126 in November 1979 and appropriated \$1.6 billion on an emergency basis for energy assistance for low-income and senior citizens. Also, the Crude Oil Windfall Profit Tax Act of 1980 included a \$3 billion program for low-income energy assistance in 1981.

b/Amounts of loans obligated.

c/Includes \$695 million for operating subsidies.

d/Number of dwelling units receiving operating subsidies at end of fiscal year plus number of units completed during year.

e/Number of dwelling units aided at end of year.

f/Excludes section 523 units because they are included in section 502 total.

g/Number of households aided; estimated 2,701,000 individuals.

h/Number of dwelling units aided at end of year.

i/Amount of loans and grants obligated.

j/For new homes and repairs.

k/New and repaired homes.

l/Also received section 502 benefits and are included in that program's total above.

Other Services

<u>Program</u>	<u>Fiscal year 1978 expenditures</u>			<u>Fiscal year 1978 recipients-- average monthly number unless otherwise indicated</u> (thousands)
	<u>Federal</u>	<u>State/ local</u>	<u>Total</u>	
	(millions)			
1. Title XX Social Services	\$2,700	\$800	\$3,500	a/8,400
2. Legal Services	<u>205</u>	<u>-</u>	<u>205</u>	<u>a/1,400</u>
Total--Other Services	<u>\$2,905</u>	<u>\$800</u>	<u>\$3,705</u>	(b)

a/ Estimated total during year.

b/ Due to high degree of overlap, recipient total not shown.

GAO REPORTS RELATING TO INCOME AND ASSETVERIFICATION IN SELECTED PROGRAMS 1975-81

<u>Report title or subject</u>	<u>Report number</u>	<u>Date issued</u>
AFDC:		
Program Integrity in AFDC, Medicaid, SSI, Food Stamp, and VA Pensions	MWD-76-115	3/31/76
Differences in Five Aspects of AFDC, SSI, and Food Stamp	MWD-76-131	5/11/76
Review of Problems and Related Costs in the AFDC Program in Ohio	HRD-77-6	10/21/76
Ineffective Management of Welfare Cases Costing Millions	GGD-76-109	12/28/76
Legislation Needed to Improve Program for Reducing Erroneous Welfare Payments	HRD-76-164	8/01/77
HEW Needs to Help States Stop Payments to Ineligible Aid to Families with Dependent Children Recipients in a Timely Way	HRD-78-87	3/22/78
Need for Uniform and Comprehensive AFDC Overpayment Recoupment Policies	HRD-78-117	5/25/78
Results of Matching AFDC Rolls in New York to Check for Duplicate Payments	HRD-78-133	6/21/78
Welfare Payments Reduced: An Improved Method for Detecting Erroneous Welfare Payments	GGD-78-107	2/05/79
Proposed National Recipient System	HRD-79-88	5/29/79
Social Security Should Obtain and Use State Data to Verify Benefits for All Its Programs	HRD-80-4	10/16/79
Better Management Information Can Be Obtained from the Quality Control System Used in the Aid to Families with Dependent Children Program	HRD-80-80	7/18/80
Implementing GAO's Recommendations on the Social Security Administration's Programs Could Save Billions	HRD-81-37	12/31/80

<u>Report title or subject</u>	<u>Report number</u>	<u>Date issued</u>
MEDICAID:		
Ineligible Medically Needy Persons	MWD-76-45	10/17/75
Program Integrity in AFDC, Medicaid SSI, Food Stamp, and VA Pensions	MWD-76-115	3/31/76
Strengthening the Capability of the Government to Detect, Prosecute, and Punish Fraudulent Activities Under the Medicare and Medicaid Programs	HRD-77-65	3/10/77
Investigations of Medicare and Medicaid Fraud and Abuse-- Improvements Needed	HRD-77-19	5/23/77
Review of Required Contributions by Relatives of Medicaid Nursing Home Patients	HRD-77-90	5/26/77
Further Improvements Needed in Investigations of Medicaid Fraud and Abuse in Illinois	HRD-78-46	3/10/78
Improved Administration Could Reduce the Costs of Ohio's Medicaid Program	HRD-78-98	10/23/78
Ohio's Medicaid Program: Problems Identified Can Have National Importance	HRD-78-98A	10/23/78
Attainable Benefits of the Medicaid Management Information System Are Not Being Realized	HRD-78-151	9/26/78
Survey of Medicaid Overpayments Recovery in New York and Georgia	-	10/27/78
Medicaid Overpayments Recovery	-	5/04/79
Pennsylvania Needs an Automated System to Detect Medicaid Fraud and Abuse	HRD-79-113	9/24/79



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

Mr. Henry Eschwege, Director
Community and Economic Development Division
General Accounting Office
441 G. St., N.W. Room 6146
Washington, D.C. 20548

Dear Mr. Eschwege:

This is in reply to your draft report, "Hundreds Of Millions Could Be Saved If Legislative And Administrative Changes Were Made To Require That Certain Data Be Collected And Used To Verify Welfare Recipients' Income And Assets."

As your report indicates, income data is a very important aspect of Program eligibility. We know from audits and our internal review systems that improper reporting of income has contributed significantly to Program losses. We concur that when used efficiently and where cost effective and in tandem with other verification techniques, information from these data systems results in considerable savings. There are some problems with mandating wage matching activity. Such a mandate would place undue hardships on States where the Food Stamp Program is not yet automated. These States do not have the capability for automated data exchange. The Food and Nutrition Service (FNS) recently published proposed rulemaking which would provide increased administrative cost sharing for computer development. However, in some areas automation is only a long range goal and in other smaller, rural States automation may never be cost effective.

The Department agrees, however, that the data systems referenced in the report are useful tools to avoid incorrect eligibility determinations and to limit and identify overpayments within the Food Stamp Program. Such matching techniques allow State agencies administering the Program to identify more readily those recipients who fail to report or incorrectly report earnings, thereby preventing error and abuse. In addition, we believe that general public knowledge of the availability and utilization of these tools may reduce the occurrence of incorrect or fraudulent reporting.

The Department intends to consider further the opportunities suggested by the report to reduce Program losses by way of data exchanges with information available to other Federal and State and local agencies. As

Recommendation

Take steps to assure that the Office of Personnel Management (OPM) wage data is available for use in administering the program.

Response

The Department's Office of the Inspector General (OIG) is presently involved in a computer match of Food Stamp Program files against the OPM files of Federal employees. The matching program has been set up to detect Federal employees receiving food stamps who have significantly underreported their income. OIG worked closely with OPM and the Office of Management and Budget (OMB) when preparing for the conduct of this matching program. As the source agency, OPM pursuant to OMB guidelines published official notice of the matching program in the Federal Register. The notice specified that the OPM records would be available for a period of six months.

OIG will be cross matching Federal employee files in several areas of the country. Locations for audit are normally chosen based on program size and history i.e., known problem areas or because of Congressional or the Secretary's interest. When we have more experience based on the results of OIG's efforts in this regard we will consider State food stamp agencies assuming more responsibility in this area.

In addition, OIG will continue food stamp matches at various times and in various locations with other State and local data sources. OIG's matching efforts have been identified as a "continuing matching program" by OMB.

Recommendation

Require that in administering the program, Federal, State and local agencies use available Federal and State wage data, and Social Security Administration (SSA) benefit data provided via Beneficiary Data Exchange (BENDEX) and State Data Exchange (SDX).

Response

The report correctly states that current law does not require that food stamp agencies obtain and use SSA wage data. However, pending legislation would require that information available from SSA and information available from agencies administering State unemployment compensation laws be requested and utilized by food stamp agencies, except that agencies will not be required to request information from SSA if such information is available from agencies administering State unemployment compensation laws.

We are also uncertain as to the cost benefits of mandating such a match for this relatively stable income population. We believe that matching programs are most effective in identifying unreported or incorrectly reported earnings information. Analysis of error rate data generally shows that recipients receiving SSI or SSA benefits are generally characterized as low-risk households.

We believe that income matching with SDX and BENDEX should continue to be left to State agency discretion. Our position is to require matching of wage data under certain broad guidelines which will allow State agencies some flexibility in establishing the specifics of their wage matching programs.

COMMENTS OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES ON GAO'S DRAFT REPORT "HUNDREDS OF MILLIONS COULD BE SAVED IF LEGISLATIVE AND ADMINISTRATIVE CHANGES WERE MADE TO REQUIRE THAT CERTAIN DATA BE COLLECTED AND USED TO VERIFY RECIPIENTS' INCOME AND ASSETS", DATED AUGUST 24, 1981

General

GAO identified 58 federally supported programs which provide cash and other benefits to those in need of assistance. They selected 6 programs to evaluate efforts made to verify the income and assets of applicants and recipients. Four of the programs--SSI, AFDC, Medicaid, and Title XX Social Services are under the jurisdiction of HHS. GAO believes unreported or underreported wages are one of the principal causes of overpayments in these programs, and recommends that Congress take steps to improve the availability of wage data to the various programs, and that HHS use and make data available under existing conditions.

GAO RECOMMENDATIONS TO THE SECRETARIES OF AGRICULTURE AND HHS

Recommendation

That for the programs that GAO reviewed, the Secretaries:

--Take steps to assure that OPM wage data on Federal employees is available for use in administering the programs.

Department Comment

With respect to the Supplemental Security Income program, SSA has an enforcement process that takes into consideration all types of SSI recipient earnings, including the wages of Federal employees who are SSI recipients. The use of OPM wage data in this process, or as a separate process, would be largely redundant and not cost effective.

With respect to the other programs--AFDC, Medicaid, and Title XX Social Services--which are State-administered, within the next few months we will explore the feasibility of making OPM wage data available to the States for use in these programs.

Further, the Inspector General is participating in a special initiative of the President's Council on Integrity and Efficiency to identify Federal employees or retirees erroneously or fraudulently receiving Government benefit payments. Computerized matching techniques will be used.

Recommendation

Require that, in administering needs-based programs, Federal, State and local agencies use available Federal and State wage data, and SSA benefit data provided via BENDEX and SDX.

Securing referral or admission for institutional care when other forms of care are not appropriate, or providing services to individuals in institutions."

In Appendix II, page 57, GAO should include for Title XX under Administration:

"State-County; State Supervised-County Administered and State Administered."

In Appendix II, page 57, GAO should include for Federal Share of Program Costs under Title XX:

"except an additional \$200 million for day care and related activities which are at a 100% Federal Share."

GAO note: Page references in this appendix may not correspond to page numbers in the final report.

We also note that the wording of the proposed subsection (1) (7) omits "payments of retirement income" as information to be disclosed by the Commissioner of Social Security. This information can be disclosed under the current subsection (1) (7). If the omission is intentional, we feel that the reason for the deletion should be explained. If this has to do with a distinction between earned and unearned income, then the proposed legislation should contain a definition of unearned income such as to make clear which category retirement income falls under.

With kind regards,

Sincerely,

A handwritten signature in cursive script, appearing to read "Roscoe Egan". The signature is written in black ink and is positioned below the word "Sincerely,".



United States
**Office of
Personnel Management**

Washington, D.C. 20415

SEP 24 1981

In Reply Refer To

Your Reference

Mr. Clifford I. Gould
Director, Federal Personnel and
Compensation Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Gould:

This responds to your letter of August 24, 1981, and the accompanying draft report concerning verification of welfare recipients' income and assets. The Office of Personnel Management (OPM) supports the effort to end fraud and abuse in any benefit recipient program and has, in the past, participated in various "matching programs" with that very aim.

As stated in the draft report, OPM does maintain information on annual salary rates (rather than actual amounts paid) for current Federal employees as part of our Central Personnel Data File (CPDF). The CPDF, which is part of the OPM/GOVT-1 General Personnel Records system under the Privacy Act, also contains the designated pay system, grade, and step of an individual (e.g., GS-12, Step 4). In the past this information has played a vital role in certain matching programs conducted by the Department of Agriculture, Veterans Administration, and other agencies. In the match project conducted by the Department of Agriculture, for example, they submitted to OPM a tape listing of Social Security Numbers for individuals who were receiving food stamps. This tape was compared with our CPDF for current Federal employees and a tape containing "hits" or "matches" was returned to the Department of Agriculture for its use in ascertaining if any of the recipients were improperly obtaining food stamp benefits.

While the CPDF does not indicate the wages actually earned by an individual and does not distinguish the actual hours worked by a part-time employee or what overtime is accrued, it nonetheless can play an important role in helping to identify Federal employees who are receiving government payments and can also serve as an indication of the actual pay the employee is currently receiving. As pointed out in the draft report, these matching programs are conducted in accordance with the Privacy Act Matching Guidelines established by the Office of Management and Budget.

Though the use of the CPDF would be a major source of income-related data for agencies charged with the administration of needs-based assistance programs, another source of income data in the custody of OPM is the Civil Service Annuity Roll. The information in that file is available to



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